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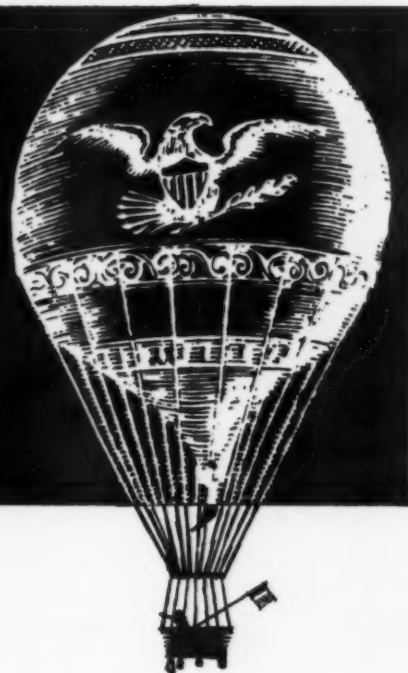
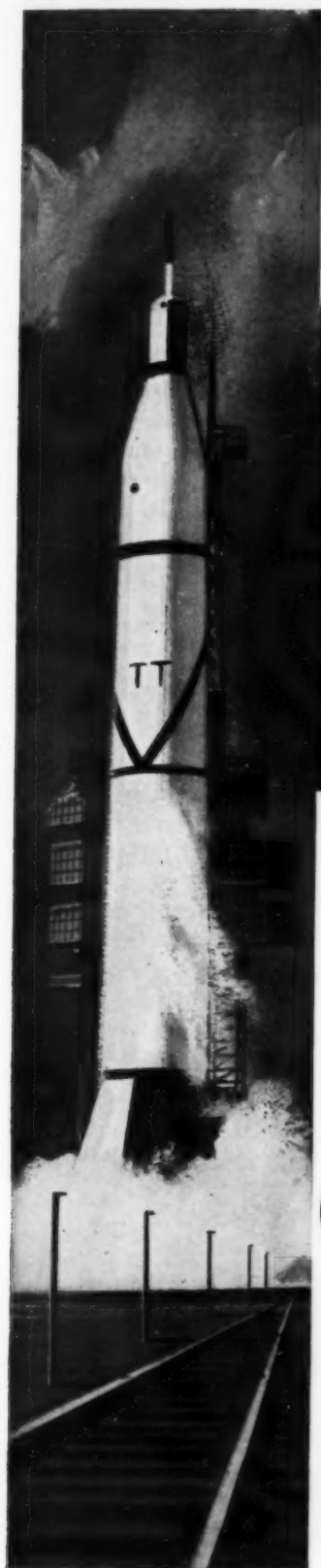
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MBA CALENDAR

September 16, Mortgage Seminar for Trusteed Funds, Hotel Commodore, New York. (Attendance limited to officers of pension trusts.)

October 3-6, 47th Annual Convention, Conrad Hilton Hotel, Chicago

December 4-10, Case-Study Seminar on Income Property Financing, Michigan State University, East Lansing, Mich.

LABOR DAY 1960

On Labor Day, around the turn of the century, one couldn't use the holiday to whip down to the lake or ocean in his car, nor sit home with a can of beer watching the ballgame on TV. Then, the average worker's wages were far below today's; he worked longer hours too. But that worker of the early 20th century didn't bother about, nor miss, one of the big burdens in the life of today's workingman—individual income taxes—says the Tax Foundation.

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One of the big reasons for the growth of the tax burden has been the tremendous increase in government spending, particularly at the Federal level. Between fiscal years 1955 and 1961, Federal government spending increased by some \$15 billion. And there is no indication that the spending rate will soon diminish.

At the present time, total Federal, state and local spending amounts to about \$155 billion, and it has been estimated that this spending will rise to over \$200 billion by 1970.

The Mortgage Banker

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ROBERT J. BERAN, Associate Editor

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Quotes

Reflections of the World Today in Capsule Comments

THE PRESIDENT'S VIEW

Not worried by the economic outlook is President Eisenhower who said:

"While this is no budgeoning economy, you certainly don't see any signs of a recession or depression. The one spot in the economy that everybody watches is steel which finally got down to 50 per cent and is now going back a little bit. Ups and downs in steel production seems to be bothersome.

"Gross national product in the second quarter was even higher than we had estimated. Personal income is over \$400 billion. Both of these are records.

"Employment is almost 69 million, another record, and retail sales continue to go up at a record. These are very hopeful signs and certainly there is no reason to read what you might call a receding or any kind of depression-like situation in our economy. People have talked about housing, but right now we are building houses at a rate of 1,300,000 which is, I think, with one exception, as high as we have ever been."

VANISHED HOPE

Might as well forget the plan to boost the 4¼ per cent debt ceiling

now says Vice Presidential Nominee Lyndon B. Johnson:

"We believe that interest rates are high enough, and we are not in favor of repealing the 4¼ per cent limitation.

"We have been against this proposal and against high interest rates, and we are against them in our platform. We believe that such a proposal is totally unjustifiable. Congress has been wise, in our opinion, to refuse to let the sky be the limit. Every time an election is held—as one recently was in North Dakota—the people seem to back us on that stand, and seem to confirm it."

AND PATMAN CONCURS

The erstwhile advocate of cheaper and cheaper money lays tight money to rest. Says Congressman Wright B. Patman:

"It is fantastic to think that the Administration can run the rate back up to 4¼ per cent.

"The Federal Reserve should meet the lagging economy problem by dropping the discount rate to 2½ per cent immediately, and in the current short session, Congress should consider urgently pressing legislation and not

take up what is now a lost cause for bankers."

END OF INFLATION?

So say many, but not Dr. Arthur B. Smith, vice president and economist, First National Bank of Dallas, who says:

"Our major trouble in living with inflationary conditions — anticipating them, timing them, measuring their ultimate effect, and defending ourselves against them.

"One assumption is that the inflationary seeds sown since, say, 1940 have all fully sprouted and exhausted their effect. There is no way of proving this one way or the other . . .

"To put the whole matter bluntly—we have followed policies in this country which have stimulated economic activity to record-breaking levels which are attained so quickly that there is serious doubt whether such levels will be sustained without further monetary stimulation.

"And we may have reached the point where even more easy money will not sustain business activity to the extent it has in the past. In some respects the so-called built-in stabilizers are built-in inflators."

THE COMING CITY CRISIS

Says Welton Becket, famed architectural designer:

"Decentralization is passe. Suburbs as we know them will soon be things of the past. The next decade will bring millions of people back into town. Mass transit has broken down.

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People are spread so far that you can't get enough of them together in one place to make large conveyances pay. Freeways aren't the answer—there is no practical way to design freeways that will carry today's traffic, let alone that of the future. The best answer is the satellite community, where offices, factories and shops will be within walking distance of the home."

LAST HALF OUTLOOK

Construction, last half, will equal that of the first, and a big reason is more mortgage money, says Walter E. Hoadley, treasurer of Armstrong Cork Co. and building economist:

"Gains will be limited by the absence of any real housing shortage, the large number of older homes now 'for sale,' and by the 'squeeze' on prospective buyers caused by the rising costs of new homes and the shrinking prices of many older homes on the market. The marked rise in nonresidential construction which has occurred thus far in 1960 will persist during the next twelve months. Highway programs are being accelerated; school building is moving upward again; industrial construction is edging upward with advancing capital expenditures; commercial building still shows strength in many areas; public utilities are planning expansion; and religious, hospital, and recreational construction is showing moderate growth prospects . . .

"Few observers see any lessening of government interest in housing over the years ahead, and most agree that there is a constant threat of still greater government influence, if not controls, over homebuilding."

NEEDED IS TAX REFORM

Says Arthur H. Motley, U.S. Chamber of Commerce president:

"A tax rate reduction would restore personal incentives. It would encourage people to take the investment risks which have contributed so greatly to our national growth. And it would within a very short time stimulate our economy to produce more revenue than all the high rates we now have.

"We also need prompt attention to the field of depreciation.

"Two generations ago it may have been acceptable to depreciate a lathe in 25 years. Today it is accurately said that new machinery is obsolescent from the day it is installed. Somebody already has a better machine on the drawing boards.

"The first principle of taxation is that the law be so simple and definite that each taxpayer knows exactly what his tax burdens are and that others having the same income will pay the same tax.

"Sound judgment too often takes a back seat to taxes—even in decisions as to where we live, what we do with our money, and how we dispose of our property in our wills."



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OVER ALL IS THE LAND

And what's been happening to land and land values is a story like no other and House & Home tells it. It's where the big speculation has been and about it has grown some vast misconceptions about how much land we have to grow with.

THERE are seven big reasons why most talk of a land shortage for homebuilding is "nonsense," says House & Home in its special August issue devoted entirely to land.

Seven reasons the shortage is artificial—not real—are:

▶ Millions of acres have been bypassed by suburban developments and are closer to towns and cities than many new house tracts.

▶ New earthmoving equipment makes it economical to use millions of acres of ignored hillside land.

▶ Economical dredging can reclaim millions of homesites from swampy and low-lying land.

▶ There are millions of vacant lots in existing neighborhoods.

▶ Cities can and do grow upward whenever their growth is checked by too-high land prices.

▶ Cities can grow back inwards, since decentralization has deflated downtown land prices.

▶ New highways are making millions of acres quicker and easier to reach.

If one doesn't believe there is still plenty of land left, just go up in an airplane over any city and see for yourself.

Homebuilders voted four to one that the purchase and development of reasonably priced land is their most critical problem. NAHB President Martin Bartling said "the average cost of raw land has at least quadrupled;

the cost of development tripled," and cited a series of land price mushrooms in all parts of the country that range from a minimum of 100 per cent to one San Francisco tract that had gone up in value more than 37 times in just 12 years.

Yet, says House & Home:

"Within view of the Pacific Ocean, there is enough room to house the entire population of the United States with a density of only 12 persons to the acre. All the cities and villages in the U.S. cover only one half of 1 per cent of the surface of the country."

These sky-high land prices in good locations are the No. 1 reason houses are harder to sell this year, the main reason it is impossible to offer good enough values in good enough locations to tempt second-time buyers out of their present homes. And in big cities, the same land costs are the No. 1 reason private enterprise cannot build good new housing for middle income families, and the No. 1 reason for the federal government having to subsidize slum clearance by buying out "slumlords" at up to three times the re-use value of their land.

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For an apartment builder, excessive land costs even affect the cost of his buildings, since he has to build high-rise buildings to spread his land costs over enough units, and such buildings cost more per sq. ft. than do one to three story buildings.

It concludes:

"Homebuyers balk at paying \$15,000 today for a house little better than they could have bought five years ago for \$12,000 with most of the difference being represented by discounts on even higher-interest money, and the doubled cost of land even further out."

"Suburban land will sell for much less before it sells for much more. If you want to get better land for less, wait for the market to turn." So, says House & Home.

Land prices have historically fluctuated much more widely than general business conditions, and even the population boom impending in the next decade is no guarantee of continued high land costs, since other population growth periods in U.S. history coincided with "busts" in land values.

Farm land prices outside the suburbs have already leveled off, and even land in the center of cities is lower than it was in 1929.

Said Housing Economist Miles Colean:

"Present land prices cannot be sustained unless we get a big new shot of inflation because cheap money started soaring land prices, and today's higher interest rate makes it harder for homebuyers to absorb inflated costs."

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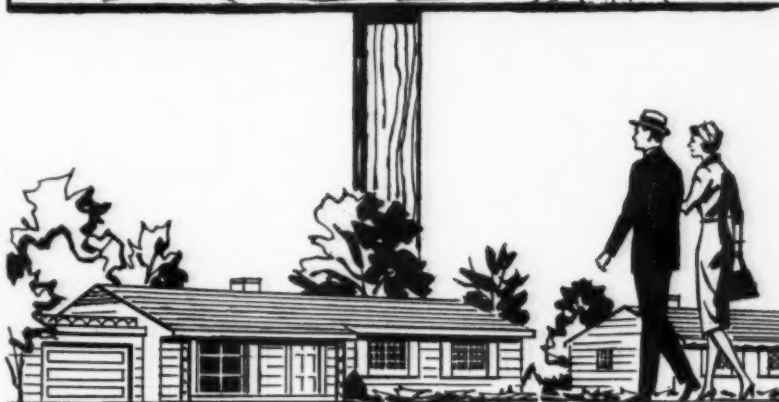
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Today's sky-high suburban land prices are predicated on an artificial and temporary scarcity, and can be kept high only as long as the illusion of scarcity can be preserved, as long as each buyer thinks that the land he pays too much for today will sell for more tomorrow.

Concludes Professor Ernest M. Fisher of Columbia University, in his classic study of premature subdivision of land:

"It takes nearly 30 years to produce a new generation that has to learn by pain and disappointment that while many fortunes have been made in real estate, many paupers likewise have arrived at their destination by the same route. That is one reason the price cycles in real estate are so long."

Dozens of new towns and subdivisions are being built today that not only use the best of past planning principles but are designed to solve new problems in land use that did not exist 30 years ago.

Today's new communities are better because they provide varied housing for a cross-section of the population, provide green space for all the residents to look at and see, and overcome the public's greatest criticism of housing—monotony.

With many builders planning the developments and houses they will be building in 1961 and throughout the next decade, the magazine cites 13 rules for good land planning, based on the best work of the country's outstanding land planners.

- ▶ Site each house to save the trees.
- ▶ Vary each house setback for better looking streets.
- ▶ Put all wiring underground.
- ▶ Let your plan follow the nature of the land.
- ▶ Divide a big plan into smaller neighborhoods.
- ▶ Dedicate some open space for common use.
- ▶ Beautify open space with landscaping.
- ▶ Make a long term plan for recreation areas.
- ▶ Put the automobile in its place.
- ▶ Don't settle for old-fashion street plans.
- ▶ Plan so children can walk to school safely.
- ▶ Use several types of housing to avoid monotony.

▶ Tie your plan in with a master plan.

These rules will "help make better use of land, help create communities that will be better places for family living for many years to come."

"New slums will be generated in our cities faster than old ones can be salvaged and rebuilt as long as slum land is undertaxed and improvements are overtaxed," it says, turning to another aspect of land.

Quoting one of their Round Tables on money and inflation, H & H says:

"Heavier land taxes would make slumlords improve their property to get enough added income to pay their added taxes."

Strongly condemned was the practice of most cities to assess small taxes against slums because the buildings are so nearly worthless, while assessing good new housing units so high that they cannot be rented to the families

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NOW THAT WE'RE AHEAD

The nation's pocketbook had a much better look last fiscal year with a nice surplus and another projected for this year. Can it last, can the spenders resist doing what comes naturally? If you think so, raise your hand.

The \$1.1 billion federal budget surplus reported for the 1960 fiscal year, while a welcome and encouraging turnabout from the mammoth deficit of the year before, nevertheless points up a disquieting trend in federal finances over recent years.

Despite rising prosperity and the mounting harvest of government rev-

that need them most. One typical city—Pittsburgh—collects only \$50 per year from the average slum housing unit, while spending six times that much money for the municipal services such housing demands.

New York City subsidizes its worst slums by assessing the valuable land under them at almost exactly the same land-to-buildings ratio as the Manhattan average, in spite of a municipal report that said:

"No amount of code enforcement will be able to keep pace with slum formation until and unless the profit is taken out of slums by taxation."

Since World War II, land speculation has made more millionaires than any other form of business or investment, House & Home believes.

Reason: Our tax system—local, state, and national—gives land speculation so many special breaks that land speculation has been by far the easiest way to get rich.

Among the special concessions:

► Under-assessment makes it cheap and easy for speculators to hold underused land for years.

► Land speculation profits are taxed as capital gains, with a maximum rate of 25 per cent.

► Most states forbid local governments to tax land more heavily than they tax improvements.

► Land carries a much smaller share of both the realty tax load and the total tax load than ever before.

► Even the small taxes carried by land are fully deductible from state and federal income taxes (and from state and federal corporation taxes).

enues that this has produced, the budget surpluses achieved over the past decade have been showing a tendency to grow smaller. The surplus for the fiscal year which ended last June 30, though turning out to be substantially larger than had been expected, was the smallest of the four achieved since the beginning of the Fifties, and was less than a third of the size of the one in the 1951 fiscal period nine years ago. The results appear even more unfavorable when the surpluses are related to revenues involved.

No comparable trend to offset this is found in the record of deficits, which have not only been more numerous in the period but in the main substantially bigger than surpluses. This is particularly true of the deficit exceeding \$12 billion for the 1959 fiscal year, which topped the combined surpluses for the past decade by a wide margin.

Fiscal responsibility in government is at the heart of a strong economy and a stable dollar, indispensable for meeting the intensifying challenges of the Sixties at home and abroad, and for providing the environment needed to stimulate incentive and to promote economic growth on a sound and sustainable basis. Chance and windfall are no substitute for purposeful action; and no nation can go on indefinitely charging things to the future via the public debt, as we have done over so much of the past generation.

The figures of the Budget Bureau show that the \$78.4 billion of federal budget revenues reported for the 1960 fiscal year were by far the largest on record, some \$7 billion more than the previous high reported in the 1957 fiscal year. Nonetheless, the latter year produced a budget surplus of \$1.6 billion, a half billion dollars more than was achieved in the fiscal year just ended despite the difference in revenues. Going further back, the 1951 fiscal year produced a budget

surplus of \$3½ billion, more than three times the one for the 1960 period, on budget revenues of \$47.6 billion or three-fifths of the receipts in the last fiscal year.

Put in another way, the \$1.1 billion budget surplus for the 1960 fiscal year represented less than 1½ cents of every dollar of the \$78.4 billion of government budget receipts for the year. This was the lowest such relationship for the years of surpluses since the federal government became established as a multi-billion dollar financial operation in the Twenties.

In that decade, incidentally, annual budget surpluses were the rule year after year, and ranged from a low of somewhat over 4 cents of every dollar of budget receipts in the 1920 fiscal year to as high as 29 cents of every dollar of revenues in fiscal 1927. And in the Twenties, too, the public debt incurred in World War I was cut by more than a third and individual income taxes reduced seven separate times.

It is true that a budget surplus of \$4.2 billion has been projected for the current fiscal year on an anticipated rise in revenues to a new record of \$84 billion. If achieved, this would represent a more favorable comparison with the past than has been the case in recent years.

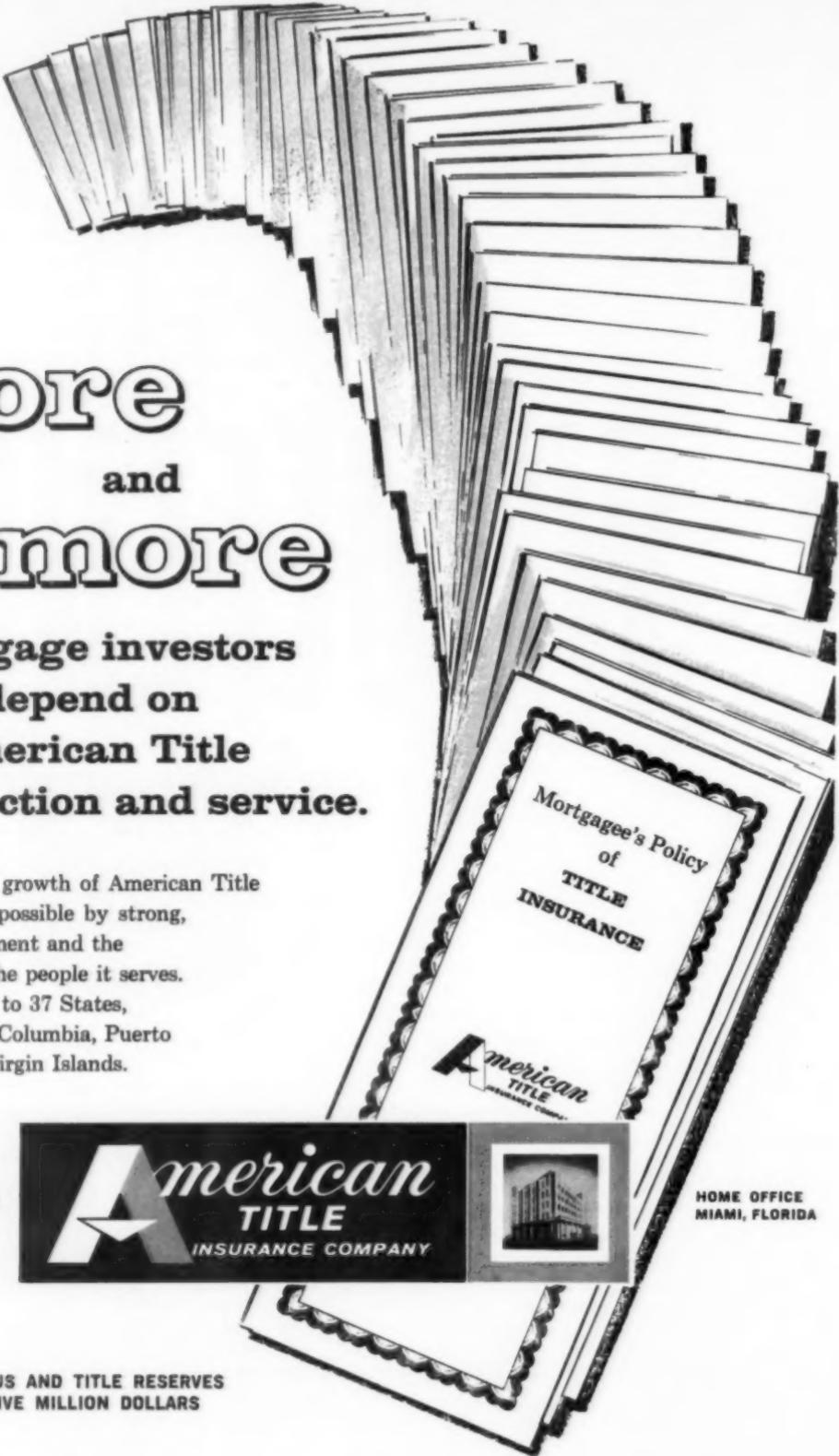
The big question mark, however, is whether spending is kept within projected limits and whether revenues come up to anticipations. Recent events with respect to government pay raises and postal rates, combined with a less vigorous trend in the economy than expected, have cast doubts on both.

By contrast with the trend in surpluses, budgets deficits have almost invariably been big and have shown a disturbing tendency to increase greatly on even relatively small and transient changes in economic conditions. Leaving out the World War II period and the preceding decade as in a special category, the figures show that in only one year in the postwar period was there a deficit of less than \$2 billion. That was in the 1949 fiscal year. The seven other deficits in the 14 fiscal years beginning with 1947 have ranged upward from \$2.8 billion, and the \$12.4 billion deficit in the 1959 fiscal year was surpassed before only in wartime.

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The Real Enemies Within Our Gates Are the Defeatists

We've been hearing a lot from them the past three years—that the nation is on the skids, we're rapidly becoming a second rate power if we aren't already one, our growth has stopped or has slowed to a snail's pace, et cetera, et cetera—all at a time when we're at a peak of prosperity and a peak of power. If only a few were involved it would matter little but there are more than a few. Here Mr. Mueller takes them and their arguments in hand and puts both in the proper perspective. At times, observations such as he sets forth may have seemed to many to be academic, flag waving, not too practical. But certainly that's not true now.

THE profit incentive has created the economic foundation of America's survival in this war-torn century. Private competitive enterprise assures the best guarantee of our country's progress in the years of terrible hazards and limitless opportunities that stretch ahead.

What is the situation right now?

The carping critics who are downgrading our country are wrong. The unbiased evidence clearly proves that today the United States is **first** in military might, **first** in economic power, **first** in moral leadership. We have the best chance on earth to maintain this supremacy.

Only our own lack of effort, lack of vision or lack of guts ever can topple us to second place. Only deluded fault-finders ever could appraise the whole picture and still complain that America is on the skids.

Yet right now—when the United States is at the very pinnacle of power and is moving forward with the greatest growth potential of all time—two handicaps to progress are in the way.

These obstacles are the mobilized forces of professional **defeatism** and professional **radicalism**. These misguided pseudo-economists could become more dangerous to American supremacy than overseas threats, blackmail or trade wars.

The professional defeatists are those blindfolded pessimists who fail to appreciate the American economic miracle. They are the faint-hearts who wail that America is a second rate power. They include those whose initial reaction to Communist propaganda is to sell America short.

The way of the pessimists is to supplant America's traditional optimism with an inferiority complex. The professional radicals are even more disturbing because they are cold, smart and ruthless. From their words and deeds we are clearly forewarned that their plan is to institute the biggest

and most costly expansion of Federal services in our history—overloading our economy with self-defeating tax burdens.

They hold out the frightening promise of restoring inflation—despite its tragic world record—as an instrument of Federal government. They even plan to degrade the independent, objective Federal Reserve by making it subservient to the Executive Branch.

Private industry of all sizes is their Number One target. They seek to brain-wash the American people of their respect for the contribution of business to our fabulous standard of living.

The end result would plague business with red tape, rob it of justifiable tax exemptions, burden it with new punitive taxes and strangle it with controls.

Should they dupe the public into supporting their irresponsible policies, the aftermath might well be an eventual runaway inflation followed by a hair-curling depression, as George Humphrey once warned.

By

FREDERICK H. MUELLER
Secretary of Commerce

If businessmen take this Renaissance of Radicalism lying down, they would deserve the miserable fate of all who fail to fight in self-defense.

Let those who have faith in American greatness speak up now, lest the fair-minded public be led astray by opportunists who cry havoc and breathe red fire. Let us sketch briefly some truths about the stature of the United States that should rekindle our pride and justify our faith in our institutions and in our country's future.

In three short centuries, under our free political and free economic system we have grown to be the world's greatest power.

Defeatists should take a look at history and at other nations before they cast slurs at their own country.

No nation in history ever has duplicated—or even approached—our record of material and spiritual progress. No people ever have given so much of their own substance to help less fortunate nations remove illiteracy, hunger and disease. America alone, of all nations, spent its blood and treasure to win two world wars and after each victory demanded no indemnities, no territorial grabs, no enslavement of conquered peoples and no domination of their governments.

The United States with less than 10 per cent of the globe's population and land produces and consumes a third of the world's goods and services. We are the world's biggest trader in both exports and imports. We control almost half of the world's energy output. We are the world's biggest producer of food—more than half as much again as Soviet agriculture.

Are those the earmarks of a decadent economy?

If any other nation on either side of the Iron Curtain ever approached that record, there might be some grounds for apprehension as to our comparative strength. But none has and—if we stay strong and keep free—none can top that record in the foreseeable future.

We must never be complacent, but neither must we be afraid. We must follow the good old American habit of always trying to better our record.

Since 1900 our population has more than doubled but our per capita production has nearly tripled. At the start of the century each American had working for him in machinery the

force of two horsepower; today about 10 horsepower. Since 1900 the total amount of capital goods per worker has doubled. Businessmen estimate that the American worker today uses tools that represent an average investment of around \$12,000.

Is that a sign of economic doldrums?

We can point with pride also to many more blue ribbons earned by our private enterprise economy. Take the period from 1952 to now as a measuring stick.

In that time we have increased jobs from 61 million to 68.6 million. Personal income went up 49 per cent. In 1952 approximately 32 million fam-

Final evidence of the power of private enterprise is found in the Gross National Product, which we compile at the Commerce Department. This summing of total value of goods and services is the "meter bar" by which economists measure economic growth.

Right now the Gross National Product is more than \$505 billion—the highest prosperity peak in all human history. It is still climbing and could reach \$750 billion by 1970, if we do right and stay right.

In the last seven years Americans have earned higher wages, bought more new homes, constructed more highways, built more schools, hospitals, and churches and invested more

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ilies owned one or more automobiles; the number is now over 40 million. Today around 73 million cars, buses and trucks are owned by Americans, more than by all the rest of the world combined. That production and sales make thousands of jobs and bring throngs of happy vacationists from California to New York.

Where on earth can left-wing nations match that record?

The scope of personal well-being is further demonstrated by these figures: In addition to Social Security more than 19 million persons are covered by privately financed pension plans. The number of life insurance policy holders has increased since 1952 by about 26 per cent. Share accounts in savings and loan associations in the same period have gone up more than 200 per cent.

Economic security—the dream of all past ages—is steadily coming true in free enterprise America where private capital, labor, and consumer all share the golden harvest of freedom.

savings than in any seven previous years.

The spark plug of this record progress has been **freedom**—freedom from tyranny of dictatorship—freedom in political action—freedom in economic enterprise—freedom that releases all the productive genius of the American people.

The defeatists fail to understand that America not only is the great melting pot of nationalities, it also is the great melting pot of **ideas**. The overwhelming majority of our economic decisions are not made by distant government planners but by private management and private consumers whose desires of yesterday are the products of today.

The managers of our four and a half million independent businesses make their independent decisions, create their own production machine, compete for customer favor and invest for future growth. Freedom in the market place has given Americans the greatest variety of goods and the

most widespread prosperity of all time.

Don't boot it away.

Don't swap a dynamic economy spurred by business for a dead-end economy stagnated by statism.

The future can be even more wonderful than the present, if we don't betray freedom. If we don't pull the shut-off switch on the generative force of our marvelous growth, the best years of our lives can be—not behind—but **ahead**.

We certainly desire growth. We are determined to have **more** growth. But we want that growth to be a reality and not a disappointing illusion.

Vision is not some new gimmick invented by the present radical stargazer. Looking forward has been the character trait of Americans since the Mayflower, the covered wagon and the jet airplane.

Growth is not the exclusive sales pitch or left-wing economists. Growth has been the motto of business since the first planter of Colonial Virginia sold his first tobacco. The universal prayer of every American family is that the children can have a better life. But such hope could be nothing but a desert mirage unless the private sector is encouraged to provide the tools for building a better America.

The chain reaction of the current revolution of science and technology is revolutions in production, distribution, transportation, communications, agriculture, medicine, management techniques, education and better means of aid for the sick, the aged and the helpless.

We can use these revolutions to develop sustainable growth. Material goals and the fulfillment of moral obligations **can** be reached if we continue to rely on the source of our past power thrust.

But if we become the copycats of alien socialism, destroy the fiscal integrity of the Federal Reserve, discourage private capital accumulation, and hog-tie business management, then private initiative will shrivel on the vine and economic growth will die.

Should the bough of sound economic strength ever break, down would go job security, national security and all.

Adding a fresh influx of power for economic growth are the fruits of the

more than \$60 billion invested in research and development during the 50's. This year we will invest \$12 billion. At that rate we can put up an additional \$120 billion before this decade ends. Then even Buck Rogers would be as outdated as Rip Van Winkle.

Private creative genius has resulted in a stream of new inventions. The Patent Office of the Commerce Department is now receiving approximately 84,000 patent applications a year. This means a tremendous transmutation of new ideas and new products for growth.

Back in 1880 the head of the Patent Office resigned, saying that with the invention of the steam engine, telephone and telegraph, nearly everything had been discovered and there would be hardly any further business for his office.

Back in the 30's one of our leaders said—and I quote—"Our industrial plant has been built . . . our last frontier has long been reached."

How shortsighted were both of them.

How backward are the modern defeatists who are quick to doubt and the modern radicals who are prone to destroy. How blind are those who prefer statism to free enterprise. How stupid would Americans be if we ever took the wild advice of left-wingers and junked a success for a gamble on a previous failure.

For left-wing ideas—all over the world—have failed to match the record of free ideas, free enterprise and free men. Now even the Reds are copying the mass production technique and incentive rewards of American private industry.

This nation itself has sampled halts to sound progress when ever it has put its economic trust primarily in government intervention in the private sector and in the artificial stimulation of huge unwarranted Federal spending programs.

Despite all the dope needle shots given the economy by Washington in the thirties, 17 per cent of the labor force was unemployed on the eve of 1940. It took a war to erase the number of the jobless. The decade that ended in 1940 was the only ten years in our history when the economy did not grow. In the next ten years it took a wave of inflation induced by war to lift the dollar totals on output.

Since when is turning back the clock the sign of creative action?

Does it make sense to argue—as some now do—that growth will come by political parlor magic if we revive the discredited doctrines and methods that gummed the works before?

Yet memory is short. Today has arisen another jam session of Pied Pipers playing the antiquated tunes. Today unreliable prophets again are promising growth through **growth in government expenditures, growth in government controls, growth in government debts, growth in government-planned inflation and growth in taxes**, which already devour one-quarter of the total national output.

We are determined to have more healthy growth. But we propose to get that growth with a minimum of government planning and regulation of business and a minimum of government interference and competition with business. Real progress does not come from debasing the currency or heaping unnecessary new burdens on the overloaded taxpayer.

One of the best encouragements to growth would be a drastic tax revision that would sharpen incentives, widen the flow of savings and remove barriers to investment. The way to increase business activity and to make jobs is to save, invest and expand.

The prospect confronting the American business community is a powerful revival of defeatism and radicalism. As a former businessman I believe in my heart that American business must battle openly against this trend both in self-interest and from a sense of patriotism.

I urge business to stand up and speak up.

For we are the defenders of the ancient faith that over the centuries has made America great. We battle for the precious heritage of freedom.

We fight for responsible government, balanced budget and a climate favorable to private endeavor. We fight for more opportunities for the coming generation.

We fight for **real** growth through **free enterprise** that will expand our record prosperity, increase individual well-being and strengthen the foundation of peace.

Condensed from an address before the Commonwealth Club of California.



End of the Dollar

but deficit balance in international

This is about an aspect of the U.S. economy that might well be the most important single fact confronting the American people yet an almost negligible number of people have any idea of it and ever fewer talk about it. It could well be the real basis upon which what we know as prosperity is to be continued yet in neither political platform was it recognized. Informed people in business and government know of it, understand its implications and worry about it yet public discussion of it is scanty indeed.

It is a hangover from the past, when the country took upon itself a program never tried before of helping other nations and to seek world stability. How great was the success of the effort is one thing—the principal thing is that now there is no dollar shortage and nation after nation through-

THE dramatic change from a perpetual dollar shortage to a dollar surplus, as evidenced by the outflow of gold during 1958 and 1959 and the accumulation by foreigners of large amounts of short term dollar assets, came as a surprise to many who for years believed a solution of the dollar shortage to be well nigh impossible. Yet this development, as the avowed foreign economic policy of the U. S. A., revealed how well spent were the billions of dollars of taxpayers' money sent abroad to rehabilitate a war-torn world. An economically strong free world not only is a vast and growing market for American products and services but is also a strong bulwark against subversion by international Communism.

The elimination of the dollar shortage and the resulting increase in the international liquidity of the leading central banks made possible the external convertibility of many currencies and thus the restoration of the international money market. This is an event of great importance, for it ties together the economies of practically all the leading free nations and subjects them to the same disciplines inherent in the operation of the gold

standard prior to the outbreak of World War I.

In a period when the demand on the Treasury to spend public funds for all kinds of purposes is very great and when pressures are brought to bear on the central bank to follow a policy of credit ease and low money rates, this discipline imposed by an impersonal element such as the international movement of gold and of funds is highly desirable. The loss of international liquidity gives the same warning to a nation as the reduction of liquid assets in a period of strong credit demand gives to a commercial bank.

Instead, therefore, of considering the outflow of gold and the accumulation of large, foreign-owned, short term assets in this country as a calamity, it should be regarded as a wholesome and normal development, as a sign of the restoration of the economies of many countries, and as an event that augurs well for the solid expansion of international trade and services. It is of particular importance to the commercial banks of the nation, for it has opened new spheres of activity and new sources of revenue.

In contrast to the period shortly after World War I, when the leading banks of the nation entered the field of international finance without previous experience and without trained personnel and consequently suffered substantial losses, the banks at present are well prepared for this task. They have highly efficient international departments and, some of them, a multitude of branches in foreign countries.

While the elimination of the dollar shortage is a wholesome development, it is quite clear that the adverse balance of payments of the U. S. cannot continue at the rate which prevailed during the past two years, lest confidence in the integrity of the dollar be undermined and foreign governments and central banks be induced to convert a substantial portion of their dollar assets into gold. This could be embarrassing to the U. S. and to the rest of the world, for it could lead to agitation to solve the problem by unsound measures. It would also reduce the international liquidity of the free world, for central banks on the dollar exchange standard consider short term dollar assets as equivalent to gold.

A loss of confidence by foreigners

Shortage a Good Thing

al trade and loss of gold are something else

out the world has recovered and doing very well—but we are suddenly faced with a problem never seen before. Our foreign trade balance shows a deficit and gold has been flowing from our shores for more than two years.

Last month in these pages Elliott Bell, editor and publisher of *Business Week*, described the matter as he sees it—and his view of it and its possible profound implications was serious indeed. Here the noted economist, Dr. Nadler, gives his views; and while he takes a less serious view than did Mr. Bell, he too sees possibilities which could be disastrous indeed. The dollar surplus he sees as a wholesome thing; the loss of gold, the threat to the dollar, are matters of the greatest magnitude.

in the dollar would lead to the abandonment of the dollar exchange standard, a reduction in international liquidity, and ultimately to the curtailment of international trade or even to a return to a policy of exchange and trade restrictions by many countries. In a period of high international political tensions that are likely to continue for quite some time, and while the Soviet bloc is increasing its economic penetration all over the world, such a development would be a great disaster for the free nations.

Solution of Dollar Surplus: An analysis of the causes of the adverse balance of payments of the U. S. will also indicate the solution. Simply stated, the adverse balance of payments of the U. S. A. is due to the fact that the excess of exports over imports and the receipts derived from the various current account items were substantially below the outpayments caused by: (1) our military expenditures abroad, (2) the economic and military aid granted by the U. S. to foreign countries, (3) the large investments made by American individuals and corporations abroad, and (4) the large American tourists' expenditures in foreign lands. Thus

the cure to the dollar surplus lies either in reducing the payments abroad or increasing the receipts from the rest of the world.

It is often stated that the easiest way to cure the adverse balance of payments of the country is to reduce defense expenditures abroad and curtail foreign economic and military aid. Such a measure in the long run would do more harm than good. The free world is engaged in a life-and-death struggle with international Communism. The Soviet leaders are diverting a large portion of the productive capacity of Russia and its satellites to the manufacture of war materials and defense-supporting industries at the expense of the standard of living of the people. They are using every means at their disposal to subvert the people in the economically

retarded areas. Under these circumstances, to cut defense expenditures abroad and foreign military aid would be courting trouble, and would lead to much larger defense expenditures later on. In view, however, of the balance of payments of the country, it is of the utmost importance that these expenditures be husbanded carefully and that waste be eliminated.

The same principle applies to foreign economic aid. Many of the newly created countries have substantial natural resources, but they have neither the means nor the knowledge to develop them. The standard of living of the people is exceedingly low, and abject poverty is widespread. Poverty and ignorance are the strongest allies of international Communism. It has been argued that the industrial nations of the free world

By DR. MARCUS NADLER

Professor of Finance, New York University
before ABA's Stonier Graduate School of Banking



should take over a part of the burden now carried by the U. S. The assistance rendered by them to less fortunate countries is increasing, but this should supplement the aid granted by the U. S. and not substitute for it. That a portion of the foreign military and economic aid did not always bring the best results, that waste and inefficiency prevailed, are facts only too well known; but this is no reason to curtail this vital work.

Moreover, the development of economically retarded areas will benefit the entire free world. It will create new sources of raw materials and new markets for the industrial products of the economically advanced nations. The higher the standard of living of a country, the greater is its trade with the rest of the world, as the example of Canada, Japan, Germany, and many other countries will testify.

Export of Capital: The export of capital from the U. S. takes two forms: portfolio and direct investments. The former consists of the sale of foreign dollar bonds in this country and the purchase by Americans of foreign securities, mainly equities. Portfolio investments depend on the prevailing costs of money in the various countries and on the status of the equity market. So long as money rates were substantially lower here than abroad, there was a strong incentive for foreigners to borrow in this country. Now that long term rates of interest are more equalized, the volume of foreign dollar bonds offered in this country has decreased. Similarly, the downward adjustment of stock prices in the U. S. is likely to cause a return flow of American equity investments from Europe.

By far, the largest portion of the export of capital is in the form of direct investments. In this field, two definite trends can be discerned—a tendency to reduce American investments for the purpose of developing foreign natural resources because of the current oversupply of some products, and an increase of investments in Western Europe in order to participate in the growing markets of the respective countries and to take advantage of lower costs of production. This latter type of capital export has been criticized by some on the grounds that it constitutes an export of American jobs and is harmful to

American labor, hence to the American economy.

This criticism is not valid. The formation of the Common Market and the Free Trade Area and the possible unification of the two groups will create a huge economic unit embracing 260-million people, with vast natural resources, and comprising the

workers who have been adversely affected by this development. While it is quite clear that U. S. industry and labor must be protected against a flood of goods from countries where wages and living standards are very low, a general policy of trade restriction is not only economically unsound but also politically dangerous. Raising

"While the elimination of the dollar shortage is a wholesome development, it is quite clear that the adverse balance of payments of the U. S. cannot continue at the rate which prevailed during the past two years, lest confidence in the integrity of the dollar be undermined and foreign governments and central banks be induced to convert a substantial portion of their dollar assets into gold. This could be embarrassing to the U. S. and to the rest of the world, for it could lead to agitation to solve the problem by unsound measures. It would also reduce the international liquidity of the free world, for central banks on the dollar exchange standard consider short term dollar assets as equivalent to gold. A loss of confidence by foreigners in the dollar would lead to the abandonment of the dollar exchange standard, a reduction in international liquidity, and ultimately to the curtailment of international trade or even to a return to a policy of exchange and trade restrictions by many countries. In a period of high international political tensions that are likely to continue for quite some time, and while the Soviet bloc is increasing its economic penetration all over the world, such a development would be a great disaster for the free nations."

greatest pool of skills that exists anywhere in the world. The removal of tariffs among the various members will lead to a material increase in the interchange of commodities and labor among them and to higher living standards. It is only natural that American business concerns should endeavor to participate in this development. The flow of capital to countries where the opportunity for a higher return exists imposes a discipline on the capital-exporting country. This in general is wholesome, for it constitutes a powerful anti-inflationary force.

Raising of Tariffs: The increased competition from abroad has created a demand to raise tariffs and to impose quotas on many imported commodities from manufacturers and

tariffs and imposing quotas are a double-edged sword, for they lead to retaliation by countries adversely affected by them. This in turn leads to general trade restrictions followed by exchange control and to a general decline in business activity. Developments during the early 1930's have fully demonstrated the consequences of the policy of trade restrictions.

Furthermore, a nationalistic foreign trade policy of the U. S. would drive the countries most affected by it into the arms of the Soviet Union. This would weaken the free world and make it easier for the Soviet bloc to intensify economically the cold war. The fact must be borne in mind that the ability of the Soviet Union and

(Continued on page 26)

President's Page

HAVE YOU NOTICED THE DIFFERENCE?

IF YOU haven't noted the difference, you will in Chicago. If I am not badly mistaken, I sense an increasing amount of that old time warmth and cooperative spirit in the investor-correspondent relationship these days. I wouldn't say that investors are exactly "bleeding" for loans but the demand for them is certainly up substantially, and the relative supply is substantially down. So I suspect that our annual convention next month will be an unusually pleasant and profitable one for all concerned.



B. B. Bass

And in addition to that very good reason for investors—as well as for mortgage bankers—to send a larger than usual complement of representatives to Chicago, is the potent fact that the program which Jim Rouse and your Executive Committee have put together is simply terrific.

But it wasn't easy. They have spent a great amount of thought and time in its planning—and the results reflect it.

In my opinion, it will prove to be the most interesting and most profitable MBA program that members have ever attended, from the informational and educational points of view.

You will receive within the next few days a copy of the program which will include more than the usual amount of information on the subjects to be covered or explored, how it will be done, and something about those who will do it.

Space here will limit me to the highlights of just one day. I could take any of the four days with equal enthusiasm but I will cover only Thursday, October 6, since that day might well develop the most controversial discussion.

This program will be devoted to a free wheeling, give-and-take, round table discussion of the "Housing and Housing Finance Issues of Today." There will be no speeches. No one will have a prepared statement. Participants (other than myself) were

carefully chosen to best represent the different views and forces at play in the housing and housing finance industries. They are all extremely competent and articulate men of national reputation—as anyone will readily recognize from the list below—and I can assure you that they do not all fully agree on the problems or the solutions confronting us.

These participants are **J. Stanley Baughman**, FNMA president; **Richard A. Booth**, past president, NAMS and president, Springfield Institution for Savings, Springfield, Mass.; **Philip N. Brownstein**, director of VA's Loan Guaranty service; **Richard G. Hughes**, past president of NAHB; **Philip M. Klutznick**, prominent builder and community developer, Chicago; **Norman P. Mason**, HHFA Administrator; **Dr. James J. O'Leary**, economic research director, Life Insurance Association of America, New York; **Dr. Robert C. Turner**, chairman and professor of business economics and public policy, Indiana University; **Charles A. Wellman**, executive vice president, Glendale Federal Savings and Loan Association, Glendale, Calif.; and **Julian H. Zimmerman**, FHA commissioner.

The questions and problems that will be put to the round table by Jim Rouse, the moderator and referee, will be selected from several hundred suggestions from members of the MBA board of governors and you may be sure that they will represent the most difficult, the most pressing and most provocative problems we have before us today. It is not intended nor expected that many conclusions will be agreed upon, but rather that you will "sit in on" the best discussion that could possibly be developed on these subjects. In itself, it will be well worth the trip to Chicago for you and for each of your key men—and the same can be said for the programs of Monday, Tuesday and Wednesday.

B. B. Bass
PRESIDENT

DOLLAR SURPLUS GOOD THING

(From page 24)

the countries dominated by it to absorb manufactured goods is enormous and that in their exports, costs of production and profits are far less important than political considerations.

The answer to international competition is not higher tariffs and more quotas but a general reduction of trade and payment barriers. As far as the U. S. is concerned, the answer lies in inducing foreign nations to remove restrictions on dollar imports, in greater productivity and efficiency, more emphasis on the quality of goods, a policy by the government and Congress to stimulate larger investments in plant and equipment, and a realization on the part of some labor leaders that increases in wages, beyond those warranted by productivity, invite foreign competition and lead to the loss of jobs.

Increasing Receipts from Abroad: Since a reduction in defense expenditures and foreign economic and military aid is under present conditions impossible, and since a curtailment of capital exports and of imports of goods is not desirable, it follows that the only way to cure the adverse balance of payments is through an increase in receipts from abroad through larger exports of goods and services. In part, this is already taking place. Average monthly commercial exports from the U. S. during the first quarter of 1960 aggregated \$1,538,000,000, as compared with monthly exports of \$1,368,000,000 during 1959. While, to some extent, this increase may be due to temporary factors, at least in part it reflects the reduction of restrictions by several countries against dollar imports. With the disappearance of the dollar shortage, there are no more reasons for the discrimination against American goods. The U. S. government is fully cognizant of this fact and is endeavoring to achieve further liberalization. The demand for American products abroad is great. Their quality is well known; and as the standard of living of the various nations rises, this demand will be intensified. It will, however, require greater efforts than are made today on the part of American manufacturers and exporters to

broaden the market for their products.

There is also a good possibility that foreign tourist expenditures in the U. S. may increase in the coming years. Restrictions on foreign travel in many countries have been eased or entirely eliminated. Some regulations which annoyed seekers of American tourist visas have been eliminated, and numerous suggestions have been offered to make it even easier for foreigners to visit this country. In time, the increased receipts from exports from American investments abroad and foreign tourists plus the repayment of some outstanding loans will rectify the balance of payments of the country. The deficit need not necessarily be converted into a surplus. In fact, a moderate deficit is desirable, for it leads to a continuous increase in international liquidity of many countries.

The changed international financial position of the U. S. A. is in part the result of the efforts of this country to rehabilitate the war-torn economies of the countries of the free world. It does not reflect a weakness of the American economy nor indicate that its products have lost their competitive position in the world. The accumulation of a large amount of short term American assets in the hands of foreign governments, central and private banks, while the result of the large adverse balance of payments during the past two years, is a sign of confidence in the dollar which for many government and central banks has taken the place of gold. It has increased the international liquidity, has made possible the return to limited convertibility by many countries, has restored the international money market which had remained practically inoperative since the collapse of the gold standard in the early 1930's, and has led to the removal of many trade and payment restrictions imposed during the period of the dollar shortage.

The dramatic shift in the balance of payments of the U. S. A. is only one of the many startling postwar economic and political changes. The formation of the Common Market and the Free Trade Area is a sign of the times and a realization that economic nationalism can only serve the purposes of international Communism and undermine the resistance power

of the free world. Close economic cooperation among the leading industrial nations will not only be to their own advantage but will also better enable them to assist the underdeveloped countries in raising their output and thus the living standards of their people.

The rehabilitation of the Western European countries and Japan and the reestablishment of the international money market with all that this implies offer the U. S. A. new opportunities and a new challenge. They open up new markets for American products and know-how. They create new transactions to be financed by the American banks and an opportunity to participate in the economic growth of the various nations. It also constitutes a serious challenge.

First and foremost, while the balance of payments is still adverse, every effort must be made by the Congress, the Administration, business and labor leaders to maintain the integrity of the dollar at home and abroad and to avoid taking measures which might undermine confidence in the dollar.

Second, the only and the surest way under present world conditions to rectify the balance of payments is through an increase in the American receipts from abroad and not through raising of tariffs and the imposition of new quotas. The latter measures, if adopted, could destroy all the benefits achieved through the massive aid of the American people to the free world.

Finally, the failure of the Summit Conference has revealed in a glaring light the imperative necessity of economic and political cooperation among the leading nations of the free world. In this, the commercial banks of the country can play a leading role. Not only can they assist in financing the international trade of the free world, and in granting short term loans to foreign banks and governments, but they also can contribute materially to provide some of the economically retarded countries with banking facilities and banking know-how. International finance is therefore a field of great interest to the bank officers, particularly of the larger institutions.

Credo of a Correspondent

... What It Ought to Be

NO CORRESPONDENCY should be built with a thought of temporary existence but should be founded on the idea of permanency. The goal should be to attain the ultimate in perfection from the production department to the processing and on through to the bookkeeping and servicing departments. Certainly, investors are more apt to give greater allocations of funds to those correspondents who have a good servicing record than to those who are inefficient or careless. The correspondent must be willing to exert the energy necessary to secure a volume of acceptable loans of all types. He must strive to employ the best type of personnel and pay even better than the going rate and if necessary, to produce a demand for the available funds of the investor.

The loan correspondent must be willing to take business risks to accomplish this—if he does not, he will make no contribution to the mortgage economy or to any segment of the mortgage banking industry, thus jeopardizing the respectability and earning capacity of the industry which, after all, in our free enterprise profit system, is the target at which we aim.

These necessary business risks are making construction loans and land mortgages (which of course is risk capital) available to the customer. The correspondent granting construction loans must have an organization that is ready to step in and finish a development in the event the builder encounters difficulties. Assuming this kind of a risk makes the correspondent's services most indispensable to the investor who, in most instances, does not desire to be subjected to risks during construction.

There is still another risk that the mortgage banker will be asked to assume. Today, investors, particularly

What makes a good correspondent? What should he do to become a good correspondent, what does he owe the investor he serves, what does the investor owe him, where does the responsibility of each begin and end in every operation which, combined, make up this correspondent-investor partnership? Most correspondents think they know—and undoubtedly most of them do. Here are the opinions of a correspondent of long standing on these matters, and many others which enter into the partnership. He starts at the beginning with some simple and basic conclusions of what this relationship is, how it ought to be maintained and how it can be strengthened and—just as important—the pitfalls.

savings banks, are fast reaching the maximum amount they can invest in mortgage loans and will be unable to make forward commitments. Should they experience an unexpected influx of investable funds or as mortgages in their portfolios are paid off at an unanticipated rate, they will call for immediate delivery of loans to use these available funds with the mortgage banker taking a position in mortgage loans, holding them in his portfolio until they are called for.

If the correspondent is not conscientious in preparing mortgage offerings and submissions, placing emphasis on accuracy and veracity, he is not doing the job the investor expects. Never do anything that might lead to the loss of investor confidence. The

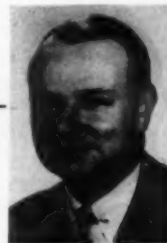
mortgage company, unlike the commercial bank, is a non-supervised lender and should not be considered merely a servicing agent. He should be organized in a manner enabling him to meet every requirement of the investor, so that the investor will have a natural inclination to maintain a continual flow of investable mortgage funds to him.

Investors are more apt to give larger allocations of funds to the correspondent who has a good servicing record than to one who is inefficient or careless in the performance of his duties. The basic functions of a good servicing department are:

► To receive payments by mail or over the counter.

By **CARTON S. STALLARD**

*Second Vice President of MBA and
President, Jersey Mortgage Company,
Elizabeth, N. J.*



- ▶ To process and report promptly and to maintain accurate bookkeeping records.
- ▶ To collect past due payments efficiently.
- ▶ To retain adequate escrow funds for future use.
- ▶ To handle all problems pertaining to real estate taxes, hazard insurance, and the relationship between the mortgagor, mortgagee, and the FHA or VA.
- ▶ To pay taxes, insurance, and M.I.P. promptly.
- ▶ To correspond with the borrower, the investor, and the governmental agencies effectively.
- ▶ To perform any other duty set out in the servicing contract.

A good relationship between the investor and the correspondent requires that the correspondent be prompt at all times. All letters should be answered the day received. If this is not possible, a brief note should be sent to the investor advising that efforts are being made to obtain the desired information and that it will be forwarded forthwith. If there is any delay in normal reporting of remittances or delinquencies, the investor should promptly be advised and informed as to when these reports may be expected.

The servicer should see that at all times there are sufficient and accurate bookkeeping records maintained, and that all transactions are promptly posted. Contracts have been terminated because of inefficient handling and careless performance in maintaining accurate records.

A delinquent account is unprofitable to the mortgagor, the mortgagee and the servicing organization. Effort spent on a chronic delinquent wastes the profit already earned from several good accounts. For this reason, every effort should be made, not only to cure the delinquency, but to prevent its recurrence.

A good collection record cannot be achieved overnight. It is the result of long range planning, development of efficient techniques, good follow-up records and a continuous review of delinquent accounts by capable personnel. It requires a knowledge of principal legal phases of foreclosure and regulations of the various governmental loan agencies, so that the serv-

icer can handle foreclosure proceedings up to possession of the property and undertake all steps necessary to collect the government guaranty or insurance.

Great care should be taken to keep the investor fully informed as to the status of all delinquents. Failure to do so may lead the investor to suspect that the servicer is remiss in his duties.

It is the duty of the correspondent to preserve a sound operation and toward this aim he should review every possibility of diversifying his income. In his mortgage origination department, he should be prepared to origi-

nate, process and completely service every type of loan. In the past 15 years, since the end of World War II, the greatest emphasis has been placed upon government guaranteed and insured mortgages. They offered a tremendous opportunity for the mass population to obtain homes with a very low, or even no, down payment and a long term repayment plan. This type of mortgage, with long term repayment including taxes and insurance monthly and excellent underwriting, particularly by F.H.A., has been the greatest impetus in this most protracted period of unprecedented



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housing starts in the history of the mortgage business. Our business is now being done on the proper basis, a long term business on long term paper, as compared with a long term business on short term paper, which was one of the principal causes of the foreclosure depression of the early and middle '30s.

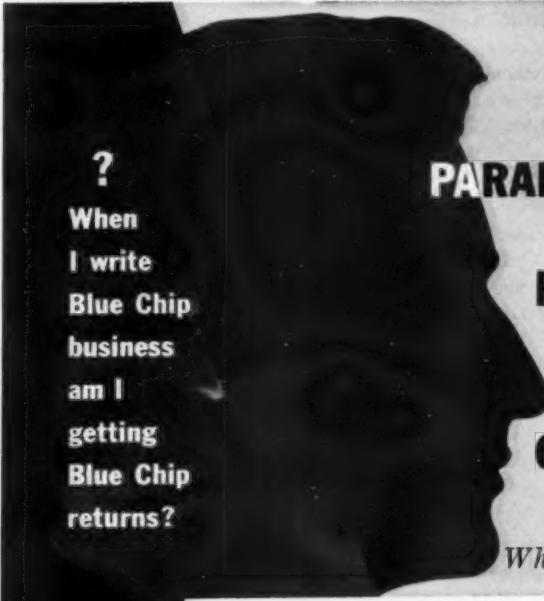
But the correspondent should also be prepared to process the uninsured one family house loan. In addition, he should establish a strong investment, or income loan, department. This must be a separate department, as one has no relationship to the other insofar as the problems of processing and closing are concerned. In many parts of the country it is also necessary to have what we call a "spot loan" department to process loans resulting from the re-sale of existing houses or re-financing by owners. This is an entirely different business, for instance, than the construction loan business, where the permanent loans are derived from the sale of new homes through construction loans to builders.

Every correspondent should attempt to round out a complete service, so that the investor is attracted to him as the place where his investment needs obviously can be readily met. I also suggest that every loan correspondent establish any other type of department, such as insurance and property improvement loans, to augment his income; it is his duty to use the facilities he has created to the maximum in order that the investor can appraise his operation in relation to his competitor and classify it in the highest category. A correspondent who decides to start a property improvement loan department must recognize the necessity for spending money and the fact that he will undoubtedly face a loss in its operations for the first couple of years. That was our experience; however, the profits we are enjoying today from the operations of the property improvement loan department made the initial cost and expense worthwhile. The successful operation of such a department not only increases the correspondent's income but enables his organization to grow and gain further stability, which is so important at this particular time.

It appears, also, that as we get into the fabulous decade ahead with great

opportunities available (if we can believe what we are told) for the mortgage banker to finance at least 16,000,000 houses, part of a good correspondent's resources and time should be allocated to finding new sources of money. It appears that pension funds are about to be tapped as a new home for mortgage investments in the approximate amount of \$97,000,000,000. Only 2 per cent of these funds are presently invested in mortgages. The managers of these funds will be compelled to seek more di-

versification and that is where the alert mortgage banker comes in. The more money at his disposal, the larger volume of business he can do and the more stable his operation becomes, thus commanding more respect from the investor. The correspondent always should be studying means of attracting funds for mortgage investment which can be placed through the mortgage banker. The mortgage banker must find ways to tap the public directly. He must be prepared to see the horizons ahead; otherwise, he



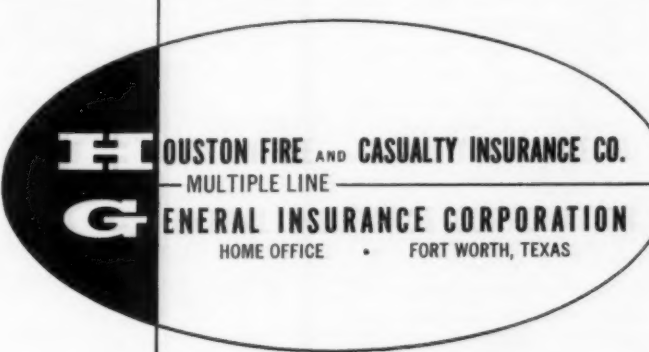
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has not adequately fulfilled his responsibility to himself nor to his investor.

It is the further obligation and duty of the correspondent to establish good community reception, both on a national and local level, with the investor, particularly the commercial bank. He should show interest in and take an active part in civic affairs so that he reflects the stability which both the borrower and the investor expect. In this way, he becomes an important part of the community which tends to help him in the successful operation of his company. He should seek and retain the respect of other industries in his community so that when a matter concerning mortgage financing is discussed, he automatically comes to mind. Thus, the fruits of his labor are realized by the natural momentum which has been initiated over the period of growth.

The type of mortgage business in which we participate today is relatively young. It started with the enactment of the National Housing Act in 1934, when those interested in entering it were given the opportunity to form companies with a minimum capital of \$100,000. The capital requirement is still the same. It is evident that \$100,000 today actually is worth considerably less than it was in 1934; and there has been some criticism, both constructive and destructive, concerning the capital structure of mortgage companies. Saul B. Klamman, director of research, National Association of Mutual Savings Banks, recently had this to say:

"If it is a valid assumption that your industry is faced with increasing competition and is, at the same time, passing from the 'rapid growth stage' of development to what may be characterized as the 'shake-out stage,' then we may see a weeding out of inefficient servicers. In a more competitive and less expansionary environment inefficient operations will not be easily hidden; investors will insist upon improved and expanded service. But the exodus of marginal firms from your industry will only serve to strengthen it.

"Maximum efficiency through improved techniques, increased mechanization of operations, and new services to investors, may be achieved most readily by larger size firms. Some investors may find it advantageous to

consolidate their business among fewer servicers. This would permit centralized record keeping, less audit work, and generally lower home office costs. Larger firms may result from the steady growth of one firm or from the merging of two or more firms. An interesting speculation is the possible development of nationwide branch mortgage banking. There are no regulatory obstacles in the way of such a development so long as the minimum capital requirement under FHA regulations is met.

"This question of capitalization is, of course, a major consideration today. Many investors are concerned about your capital adequacy. To quote from a recent talk of William F. Keesler, of the First National Bank of Boston, one of the men most knowledgeable about mortgage banking:

'Some companies have been so anxious to meet competition and grow in size that they have been trading dollars and have not had enough net profit to leave in the business to increase capital in reasonable proportion to the volume of business done and obligations outstanding. . . . One thing that protects some businesses from irresponsible and inexperienced competition is the amount of capital required. It could be a good thing for the industry itself to require growth of capital in proportion to size of activity as well as to provide further protection that the investor is entitled to and, in fact, is paying for.'

"Obviously size alone is no guarantee of capital adequacy. In fact, as Mr. Keesler points out, too rapid growth may be a basic cause of inadequate capital. The shake-out pe-

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riod, therefore, may be characterized as well by a firming up of capital positions. Those firms unable or unwilling to expand capital relative to volume of business, may find it increasingly difficult to satisfy investors. Size of operations alone does not necessarily mean quality.

"In brief, then, the period ahead may see some weeding out of mortgage servicers. It may be characterized by the emergence of larger firms operating over a wider geographic area, and having a strengthened capital position. There will still be a basic place for the smaller, efficient servicer, well capitalized, and able to utilize modern techniques to provide maximum service for his principals. Competition will be vigorous, however, and the small firm may be hard-pressed to keep up with the efficiencies of operation inherent in large-scale enterprise."

One cannot help but observe that many mortgage originators have been unwilling to leave a substantial portion of each year's earnings in their businesses and this practice is now being considered by large investors. Leading mortgage bankers recommend that each mortgage banker reinvest a substantial portion of his earnings every year so that the net worth of the company will bear a proper relationship to the increased volume of business being done and the increased servicing portfolio. Certain responsible mortgage bankers say that the minimum amount of capital to servicing volume should be $\frac{1}{2}$ of 1 per cent, or about one year's expenses. The formula will vary with individual circumstances. The investor certainly is likely to take a dim view of the management of companies unwilling to maintain a net worth in reasonable proportion to their aggregate servicing account, consistent with good business judgment.

It is strongly recommended that every correspondent maintain a program of training in order that the younger men will be well equipped to manage it. One-man management, so prevalent in our business, has been criticized and it is important that this be corrected. This training ties in with a program of appropriate management succession, from the bottom to the top. It is the duty and responsibility of every mortgage banker to see

that such a program is inaugurated and faithfully carried out, not only to protect the investor but, selfishly, to guard this investment in the company for the benefit of his family.

So far most of these observations have been concerned with the responsibility of the mortgage banker to the investor. His responsibility does not end there as he also has an obligation to the mortgagor-borrower. When the average person purchases a home, he enters into the largest business transaction of his lifetime. Most people's principal asset is their home and, therefore, the mortgage banker has an opportunity to render a fine service to these individuals and to help them, as they normally know very little about the business venture upon which they are about to embark.

First, the application should be processed expeditiously, as should the closing of the loan, so the mortgagor's confidence in the mortgage banker is preserved. Obviously, all facts concerning the loan should be fully disclosed—type of property and availability of plans and specifications; if new construction, the amount of the tax, and information concerning prospective assessments and sewer rentals, if any. In general, a candid relationship always should exist. The full cost of the loan, interest rate and maturity should be clearly explained. The borrower should be brought into the full

confidence of the lender. It is imperative that he receive complete instructions as to his rights and duties.

Many unusual problems arise during the term of the mortgage and the correspondent-mortgage banker always must be prepared to counsel. Many in the industry fear that during the last 10 years when such a large volume of mortgages has been generated, the mortgagor has been somewhat neglected and some ill will developed. It seems to me that it is the responsibility and duty of the correspondent to correct this, always bearing in mind what a tremendous business transaction purchasing a home and signing a mortgage is for the average borrower. I am certain that a good many of them, particularly the ones who made no down payment, are not quite sure whether they have purchased the property or are just renting it.

To summarize what the mortgage banker should do: he must build a respected financial institution, secure as many sources of funds as possible, never forgetting that money is his commodity, have attractive and functional offices but not ostentatious so as to give an impression of undue affluency, ample parking facilities and should select the highest type personnel available, naturally giving preference to individuals possessing the maximum amount of educational background. He must be prepared to take necessary calculated business risks

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to realize a reasonable profit and endeavor ceaselessly to make a definite contribution to the mortgage economy. He must properly mechanize his operation so that his service and bookkeeping operation can be done at a minimum cost with maximum efficiency. He must keep abreast of improvements in mechanization as rapid progress is being made during this nuclear age. Yesterday's ideal machine setup can be out of date tomorrow. The only way to go is forward — you cannot stand still nor can you, obviously, go backward.

Investors have a responsibility to their correspondents

It is now in order to discuss the investor's responsibility to the correspondent. I think the only way a correspondent system can work effectively is for the investor and correspondent to act as a team. The correspondent should be considered a part of the investor's organization which he is. To have a successful relationship, the investor must firmly believe in and want the correspondent system. He must be willing to give consideration to and thoroughly test all new methods, such as the single debit system of bookkeeping, the payment of servicing fees on a level compensation basis; to make mortgage money available on the maximum terms submitted; to be prepared to go into new fields of lending and have alert research departments to investigate — for instance, loans on bowling alleys and motels.

It is the investor's duty to make the correspondent assume real responsibility. He should eliminate all home office expenses possible by permitting the correspondent to assume the responsibility for which he is being paid. The correspondent and the investor must have a clear knowledge and understanding as to just what each one is attempting to accomplish.

Of paramount importance, from the correspondent's standpoint, is a clearly defined lending policy on the part of the investor. The permanent investor should decide whether it wants to invest primarily in conventional loans or government insured and guaranteed loans; whether it is going to be a factor in the income

loan field and, if so, what type of such loans will the institution be primarily interested in. If the correspondent has a clearly defined policy by which he can guide his production, 90 per cent of the battle is won. Dovetailing into this is the investor's awareness of just what the conditions are in his correspondent's particular area. It is very well to set out a policy insofar as mortgages are concerned, but if the individual correspondent is unable to work with the tools given him, the setup is useless. An investor should be familiar with the general yield pattern that can be expected in his various territories and be guided accordingly. He should also know the extent of activity in the locale and not expect an impossible volume. Further, the investor should familiarize himself with the methods used by the correspondent in obtaining suitable investments for him. For instance, the investor must realize that the modus operandi he follows with his correspondents has to vary with the type of operation. The correspondent who produces his loans largely via construction money on proposed construction has a completely different problem than does the correspondent who produces his loans largely on an existing basis. A correspondent who produces on the former basis requires investable funds in the form of allocations at a particular time in the year in order that he may approach his builders with some degree of safety as to price and volume of production which he will be able to take on, based on the money available during the coming year. Spot loans, on the other hand, can be turned on and off pretty much at will and small periodic allocations can work very effectively.

Regardless of the type of operation, the correspondent certainly is entitled to some continuity of allocation on a year-to-year basis. The conscientious correspondent is unable to effectively produce mortgage loans unless he builds up a considerable organization, employing competent people who are, generally speaking, not easy to come by. The only way such overhead can be maintained is by a continual flow of investment funds; and regardless of yield it seems to me that a nationwide network of correspondents must be kept in funds for investment, if an overall mortgage lending operation is

to be successful. From the standpoint of the mechanical workings of the mortgage submission to the investor, it is extremely important from the correspondent's point of view that he be given prompt service, especially in the field of conventional lending. Time is often of the essence and a deal can easily be lost if the correspondent is held up because of a lag in processing in the home office. Coupled with this, there should be a decisive attitude on the part of the investor. A clear cut, final decision, even if it results in a rejection, is certainly more appreciated by the correspondent than an indecisive, drawn out consideration which ultimately ends up in either a rejection or a loss of the loan.

Originator-investor team has been a successful combination

Adequate field representation is of course another important service the investor must give the correspondent. Regularly scheduled trips with occasional emergency meetings always are necessary from the mortgage correspondent's point of view. If possible, it behooves the investor to work out some sort of an automatic closing arrangement, for those cases which necessitate rapid processing, based on some sort of repurchase agreement. Credit underwriting is of course another part of investor-processing which should be handled with as much dispatch as possible.

Recently in *The Mortgage Banker* John R. Folsom, assistant vice president of Liberty Life Insurance Company wrote the following — and he is an investor who fully recognizes his responsibilities as well as those of the correspondent. He likes the system because:

"It provides a low cost operation.

"It provides great flexibility for our investments.

"It provides for broad coverages of various types of loans and ability to spread their risk.

"It provides community respect for both.

"It gives the opportunity for prompt changes in policies.

"It furnishes complete separation of underwriting and investing.

"It provides outlets for the company participating in community growth and development, and it provides a stimulus to business progress.

"It provides a good balance of company conservatism and correspondent enthusiasm."

Mortgagors also have a responsibility. Their primary responsibility, which should be clearly pointed out to them, is the necessity of strict adherence to the mortgage contract, particularly in respect of making payments promptly and keeping the mortgaged property in good repair. They should be educated so that they will contact the correspondent, first, when selling or refinancing, enabling the correspondent to keep the business on his books. The correspondent must see that mortgagors are thoroughly satisfied with his service so that they will be encouraged to recommend him to their friends, thus generating a substantial volume of business for the correspondent.

The correspondent mortgage banking business is dynamic and it is here to stay. Not long ago Deane C. Davis, president of National Life Insurance Company, Montpelier, Vermont, said:

"Life insurance companies were the first major investors to make 'long distance loans,' and many years ago became the first to use the correspondent system on an extensive scale in acquiring and servicing mortgage loan investments. So much time has passed since this development occurred, and so many other types of institutions currently avail themselves of the valuable services provided by correspondents, that the part which life insurance companies played in this development is frequently forgotten. The expansion of the correspondent system and the rise of mortgage banking on a truly national scale can be attributed largely to life insurance companies. No other type of investor can point to such a long record of use of the mortgage correspondent system, and no other type of financial institution is so deeply indebted to the mortgage bankers as the life insurance industry.

"The National Life Insurance Company takes pride in the fact that throughout its entire history it has been a correspondent company, and at the present time it has no plans for becoming anything else."

Profiles of People

at work in MBA

RAYMOND T. O'KEEFE is a vice president of The Chase Manhattan Bank in New York City, an institution with which he has been associated for thirty years and where he is in charge of its real estate and mortgage loan department. A graduate of the Bentley School of Accounting and Finance in Boston, he has taken courses also at the Harvard Graduate School of Business and at Columbia University. Hailing originally from Vermont, this white-haired gentleman—anxious that his white hair not mislead anyone—is quick to



explain that "Vermonters stay young." Those who know him well and who work closely with him agree: his is one of the keenest minds in the business; he is extremely agile, mentally—physically, too. Because Chase, with its tremendous volume in pension trusts, is one of the "big five" New York banks which, together, handle over half the total of pension assets held by all banks, Ray has developed an acute grasp of the problems and issues inherent in the big new investment challenge which, today, is of such vital interest to so many mortgage bankers—tapping the pension funds. He spoke on this topic at MBA's Southern Mortgage Conference in Jacksonville last April. A familiar figure, in fact, on the MBA lecture rostrum, he has served, too, as chairman for some of this Association's major meetings—the Eastern Mortgage Conference in May of 1959, and the Senior Executives Conference at New York University in January of this year. Locally, he is a board member of the New York MBA; nationally, he serves on three MBA committees—Mortgage Market, Conference and, as one of its vice chairmen, Educational.

LINDELL PETERSON, a past president of this Association and president of the Chicago Mortgage Investment Company, is a recognized leader within MBA and a respected figure in the industry generally. His record of proven ability speaks for itself—as a successful mortgage banker, as a capable administrator and as an originator of ideas; ideas which reflect the planning and careful consideration which goes into them and which, so often, have contributed significantly to the stature not only of MBA but of the industry, overall. His pioneering efforts in the field of mortgage education won him the 1953 MBA Distinguished Service Award.



That was the year he headed the Association's education program—an area of activity which, while it has expanded many-fold since then, has continued to benefit from his unflagging support, his direct participation and his constructive suggestion. It was Pete who conceived the idea of the MBA Research and Educational Trust Fund, created to broaden the scope of mortgage banking education in schools and colleges, and to undertake research projects in this field. It was he, too, who was instrumental in establishing MBA's first Educators Conference at the University of Michigan in 1955. Himself a graduate of the University of Illinois, he has headed the Chicago MBA and he is active in the Illinois chapter of AIREA. He has served many terms on MBA's Board of Governors and has participated actively and consistently in MBA committee work. Currently, he serves on the Educational Committee and the Research Committee and is a hard-working member of the Past Presidents Advisory Council.

This BUSINESS of MAKING LOANS *and Servicing Them*

AS a result of the painful lessons learned during the depression, the vital importance of efficient mortgage loan servicing has become recognized by astute thinkers in the mortgage banking industry.

During that period these operations became directly supervised by the executive department of these companies. Many mortgage bankers were far too slow to take similar action. Today, however, loan servicing has reached its proper stature among most mortgage bankers, and everywhere mortgage bankers are endeavoring to improve the efficiency of every phase of these operations.

Getting nation-wide recognition of the importance of loan servicing has not been easy. It has been the result of at least twenty years of effort on the part of the ABA, the MBA Servicing Committee, FHA, VA, and FNMA, State and Federal Bank Examiners, other regulatory bodies, and far-sighted executives in mortgage banking firms. And another important reason should be added, namely, the consistent demands of institutional investors who have laboriously educated mortgage banker loan correspondents, and banks who handle such servicing, to the fact that servicing in all its phases must be given meticulous attention . . . or else! Actually, the allotment of funds by most of those companies is based to some degree on the servicing record and efficiency of each respective correspondent.

Today, institutional investors and

In recent months, in these pages, many people from the origination and investing sides of mortgage lending have been taking some long, searching looks at the business, pulling every aspect of it apart to see what makes it go. Combined, their views have reflected many shades of opinion, many conceptions of past performance, even more conceptions of the shape of the future. Here a mortgage banker joins the group, and gives his ideas with some emphasis on the different classes of lenders and how well each one is equipped to handle each phase of the mortgage lending operation.

mortgage banker loan correspondents combined, are charged with the responsibility for proper loan servicing and efficient portfolio management of about \$145.6 billion of mortgage loans out of an overall total mortgage debt of \$191.3 billion. These figures are staggering indeed—this is the largest single element of private debt in the nation.

Because of the public relations aspects of servicing we must be concerned with the welfare of our communities and the persons served in those communities. Mortgage lenders who have evidenced such concern have greatly improved their customer, public, and even human relations.

The massive and rapid growth of mortgage lending has placed on mortgage lenders the responsibility of taking into consideration the effect of their operations upon the economy of the country and of the immediate areas where their loans are serviced.

Efficient loan servicing helps to discharge this responsibility.

The condition of the portfolio is of paramount importance. A healthy portfolio does not suddenly appear. It is based on hundreds of elements and conditions. The portfolio must be watched daily and trends in the mortgage market and pending legislation must be analyzed. A major portion of these activities in some firms have been assumed by able and alert servicing officers.

The major phases of loan servicing are actually portfolio management.

Mortgage loan servicing is not just delinquent loan servicing. Actually, general loan servicing, or portfolio management, embraces three basic operations:

1. Delinquent loan servicing.
2. General loan servicing (own portfolio, if an institutional investor).

By WILLIS R. BRYANT

*President, Bryant-Johnson Mortgage Company, San Francisco,
before the ABA Mortgage Workshop Conference*



3. Loan Servicing for others.

The generally accepted definition of general loan servicing or portfolio management is "All the Functions involved in the administration, management and control of a mortgage loan from the time the loan is disbursed until the time the loan is eventually satisfied in some way."

The general objectives of this program are:

1. To anticipate and to eliminate to the greatest possible extent the risks of loss and the factors which contribute to these risks.
2. To protect the safety of the investment.
3. To be prepared for any contingency.
4. To maintain efficient operations.

Senior servicing officers must know FHA and VA regulations, loan procedures, and loan policies. Highly skilled and trained men and women must be in charge of such divisions as Accounting, Hazard Insurance, Taxes, Delinquent Loan Servicing, Statistics, Research, and Portfolio Analysis. All of these are part of the functions of general loan servicing and portfolio management. If a loan portfolio is to be maintained in a sound condition it must be constantly supervised.

An alert servicing officer will always have the following information available:

1. Classification of loans by types and size.
2. By dollar amounts.
3. By geographical areas.
4. Will maintain a weekly run off record of the portfolio, including new loans made, loan commitments outstanding, and changes in ledger balances.
5. Will know daily interest accrual rate.
6. Net operating income.
7. Delinquency records in detail.
8. Foreclosure records.
9. Profit and loss records on foreclosed loans.
10. Maturities of loans.
11. Breakdown of amount of loans by interest rates.
12. Loans by types: FHA, Conventional, Farm, Veteran, Commercial and Industrial.

13. Interest earned but not collected, and

14. Delinquency rating of principal's loans by offices on a percentage and comparative basis.

In addition, these men should know national statistics on mortgage lending activities, and pending housing legislation.

Loan servicing must start when the lender and prospective borrower first meet. The prospective borrower should be furnished with the necessary information concerning his loan terms, costs involved, and his rights and responsibilities.

The principal function of mortgage banker loan correspondents is to originate and service mortgage loans of all types, for the accounts of institutional investors. Since 1935 these companies have played an important role in the entire mortgage lending industry.

These mortgage banker correspondents need an intimate knowledge of the mortgage market, skill in appraising real estate values, sound judgment in underwriting mortgage requests, the ability to recognize a good loan, to select and recommend good loans that will make successful investments for their principal, and the ability to handle efficiently and effectively the servicing of such loans. The relationship between a mortgage banker correspondent and his principal is a fiduciary relationship—a relationship of trust. It can continue only if the correspondent is thoroughly honest in the broadest sense. The growth of the correspondent system in the mortgage market, nation-wide, is a tribute to the men who are mortgage banker correspondents. It is a fact that these mortgage banker loan correspondents measure up in every respect to the high standards of commercial and savings bankers.

A few leading bankers in the country have expressed the opinion that "Mortgage Loan Origination and Servicing for Others" could be an important function for more commercial banks, with tremendous potentials for good in the mortgage lending industry and the economy of the nation.

These bankers have also expressed the opinion that under-capitalized and inefficiently operated mortgage banker loan correspondents might be a necessary evil, but that in the years

ahead they "must get their houses in order" if they expect to survive. Their present functions, some have said, could possibly be absorbed by commercial banks or by life insurance companies and mutual savings banks doing this business directly. Added to this is the competition of savings and loan associations in the field of home loan financing, and even more important, progressively decreasing finders and servicing fees. I am strongly of the opinion that properly organized and properly operated mortgage banker correspondent companies will continue to play a vital and increasingly important role in the mortgage lending industry.

Other leading bankers, as a result of surveys they have made, are of the opinion that loan origination and servicing for others would *not* be a profitable operation for commercial banks.

Between the two are the commercial banks who handle construction financing, take the deals they want for their own portfolios, and leave the other deals to mortgage companies or any other type of mortgage banker who will handle the long term financing. Also there are commercial banks that handle the construction financing, take the loans they want, and place some of these loans direct with investors and service such loans. In this latter category, commercial banks are moving steadily into this field. A few progressive commercial banks saw the potentials in this type of home loan business, particularly as far back as twenty years ago, and they are now recognized as very important factors in the national mortgage market.

In analyzing the respective merits of loan origination and servicing by commercial banks and mortgage banker loan correspondents, the types of properties involved in mortgage financing should be placed in two separate categories:

1. Home Loans—FHA, VA, and conventional.
2. Conventional loans on commercial and industrial properties (office buildings, shopping centers, super-markets, medical buildings, apartment buildings, farms, etc.).

In the field of home loan financing and loan origination and servicing for others, it is true that the few banks

presently engaged in this business activity handle the procedures involved in loan submissions and servicing, equally as well as mortgage banker loan correspondents.

On conventional loans on other types of properties, it would appear that mortgage banker loan correspondents prepare more complete loan submissions than banks do, and handle the servicing of such loans equally as well or better than commercial banks.

This would seem to lead to the conclusion that commercial banks should refer such types of loans—except those which are to be carried in their own portfolios—to mortgage banker loan correspondents for placement of the long-term loan, and the banks in such cases could be satisfied with the interim financing.

In spite of these varied expressed opinions and methods of operation, definite trends are in the offing which point to many changes to come in this entire mortgage lending industry. These changes will be based to a large extent upon the quality of the services performed in loan origination and loan servicing.

Commercial banks are in an excellent position, as far as the potentials for "Loan Origination and Servicing" are concerned. However, as I see it, their major competition in this home lending field will not come from mortgage banker loan correspondents or vice-versa, but from savings and loan associations.

Those banks which have already been doing this business have increased earnings to such an extent as to justify the taking on of this role in the mortgage lending industry.

Many mortgage lenders think that we will never have another depression or serious recession. Others think that if we do, we will not lose any money because practically all loans today are written on an amortized basis. Also, the quality of each loan is better because of better screening, better appraisals, better credit analysis, and better borrowers. In the middle Twenties many business leaders fancied the idea that we would never have another depression or recession. Yet in a few short years from that time we had one of the worst depressions in our history.

One of the basic causes for huge

losses and other troubles during the Great Depression was inadequate loan servicing or no loan servicing whatsoever. It was a *lack of preparedness*. Are we now *prepared* for another depression or serious recession?

Losses on many home loans foreclosed during the Great Depression reached 33 per cent of the principal amount loaned. Could such losses be incurred again? It is definitely possible, unless loan origination and loan servicing have reached a state of perfection. The goodness and quality of our present loan portfolios have been diluted because of the upward spiral of building costs, lower down payments, no down payments, longer terms, and the decreasing purchasing power of the dollar. Diluted is a mild word indeed. To this must be added "unnatural discount operations" and the "creeping inflation" we have had.

To offset these conditions, highly efficient loan origination and servicing procedures have been adopted by all prudent and forward looking lenders. Today loan servicing is a science. And speaking of loan origination and loan servicing, there is an old adage which says, "A well made loan is half collected."

Even though we are possibly approaching the maximum of efficiency in our procedures for processing loan applications and in loan origination and servicing and portfolio management, many of the pitfalls in mortgage lending remain—and there is a long hard road ahead before we approach perfection. A weakness in the servicing structure of any type of mortgage banking firm today could be courting disaster.

None of us can foresee the end of the present real estate cycle. None can predetermine a sudden and prolonged period of high delinquencies and excessive losses. However, there are many signs and conditions today which indicate an increase in servicing problems in the immediate years ahead.

We probably have more loan servicing responsibilities today than ever before in history. Mortgage lending now reaches into every village and hamlet in the country. Borrowers are counted in the millions and represent all the economic and social levels.

Efficient loan servicing and port-

folio management spells the difference between a good portfolio and a fair or even poor one, protects the safety of the investment, aids in keeping the portfolio in a liquid condition, reduces operating costs, increases earnings, and has a beneficial effect upon the economy of the nation.

Our administration of the loan portfolio must continue to be geared to withstand the shocks that could come if the present real estate cycle should come to an end.

► **INSURANCE SOLD:** Permanent life insurance, including such plans as straight life, limited payment life, endowment and retirement income policies, has increased three-fold since the end of World War II and today accounts for nearly 80 per cent of the ordinary life insurance owned in this country, the Institute of Life Insurance reports.

Including the \$30,000,000,000 term insurance combined with permanent insurance in family plan and family income type policies, the total of ordinary insurance supported by cash values and having a savings element amounted to about \$285,000,000,000 at the start of this year, or approximately 90 per cent of the ordinary life insurance in force.

Of the ordinary life insurance currently purchased, 86 per cent is of the cash-value type. These include straight life, limited payment life, endowment, retirement income, modified life, family income, family plan and other combination policies. By number of policies, 92 per cent are cash-value plans. Last year, American families bought \$44,000,000,000 new cash-value ordinary insurance compared with \$26,500,000,000 four years before and about \$9,000,000,000 in 1945.

The increase in cash-value life insurance in force since the end of the war has been nearly 200 per cent, compared with a 180 per cent rise in aggregate savings accounts and a 120 per cent rise in total U. S. wages and salaries.

"One of the factors in this growth of cash-value insurance has been the continuous extension of family financial planning in recent years, featuring special policy packages providing either all-family protection or special

family income provisions," the Institute said. "More than one-fifth of the aggregate ordinary insurance in force is now under either the family plan or the family income plan, including special riders providing special protection for state periods ahead. This term insurance which is included as a rider or special provision is, however, protected against emergency situations by the cash values of the base policies. At the same time, the post-65 cash values are growing in the base policies."

Millions of families in the country now have either a family plan policy or a family income type policy. The number of such policies now exceeds 7,000,000, compared with about 1,000,000 at the end of World War II. These policies account for about 40 per cent of current ordinary insurance purchases.

Families owning the cash-value ordinary policies of all types have developed cash values to their credit with their life companies in excess of 50,000,000,000. The potential age-65 cash values in these policies is estimated to be well in excess of \$100,000,000,000.

"From the degree and nature of policy planning of recent years, with special emphasis on policy packages geared to family financial planning, it is clear that future years will see a far wider sweep of protection at all ages," the Institute commented. "In the first place, there should be a materially increased average ownership of life insurance among those past age 65. Also, with so many children started at an early age on ordinary insurance plans, there should be a greater floor of protection established for young married couples, carrying lower average premiums than heretofore. As for the emergency values back of the policies, it is significant that today's ordinary life cash-values are several times those at the start of the 1930s."

► **YOUR \$ VALUE:** The economic value of a man in the United States, the human side of national progress, is now half again as great as it was a decade ago and has attained the \$200,000 level.

This is an overall figure, computed from Government data, for the prospective lifetime income of an average

man just starting out on his career, based on current income and survival rates. Broken down by broad groups, it varies from averages of somewhat over \$175,000 up to around \$350,000, before taxes, depending on educational attainment and its relationship to occupational opportunities and earning power.

Here is a measure of a man's potential economic worth these days as a work and as a producer to himself, his family, and to society as a whole. Its growth has come about from a combination of factors, chief among which are the persistent increase in longevity.

► **THE BIG PAYROLL:** There are almost as many government civilian

employees (Federal, state and local) as are employed by the country's 500 largest companies. One out of every seven employed persons is working for government.

It costs roughly \$33 billion today to support the payrolls covering the 8 million government workers, 2.3 million of them in Federal jobs and 5.8 million on state and local payrolls.

The number is likely to go higher in the next decade. Some 10 million Americans may be on some government payroll in 1970, the Tax Foundation estimates.

It costs \$610 per American family this year to maintain the vast army of government workers. Ten years ago it cost \$340. By 1970 it may cost \$800 per family.

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They used to laugh when we showed our mortgage payment booklets running up to 10% interest. But now, with money so scarce, we regularly get requests for tables at even higher rates, presumably for second mortgages, or third mortgages, or what have you.

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not very fancy, but adequate. It is a plastic bound reproduction of typewriter figures. It starts at 10% interest and goes up to 24%, by each 1%. It shows each year from 1 year to 20 years; and amounts to \$5000.

If you need it, it is worth the price of \$2.50. Ask for Chart 4A-603W.

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FARM LAND VALUES *and*

FARMERS' MORTGAGES

FARM LAND values rose only 3.2 per cent in the year ending March 1, 1960, after moving upward for 19 years at the average rate of 7.3 per cent per year compounded. This high rate of gain made profitable the ownership of land after values were bid up beyond levels commensurate with returns to land from farming operations. Debt repayment capacity from earnings has become limited on many types of farms. However, the mortgage debt level relative to land values is in a favorable position and no outbreak of foreclosures is anticipated even in case of a moderate downturn in farm real estate prices.

The average value of farm land in the nation increased only 3 per cent in the year ending March 1, 1960, after advances of 6 to 8 per cent in each of the previous three years. Although annual increases were less in all major regions of the nation, the slowdown was most pronounced in the Corn Belt, Lake States, and the Northern Plains.* March 1, 1960 values in the Corn Belt and Lake States averaged only 1 per cent higher than a year earlier and values in the Northern Plains averaged only 2 per cent higher. Furthermore, in the four months ending March 1 of this year average farm real estate values for the nation rose only one per cent and values in 21 states either remained the same or declined.

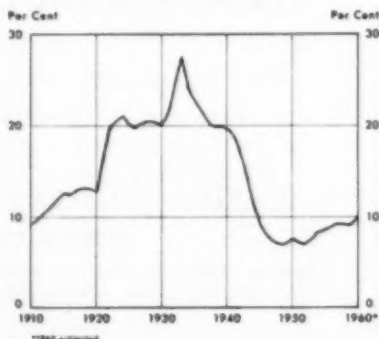
Farm real estate prices have moved upward persistently and at a high rate since before World War II. Value of land and buildings increased from \$33.6 billion in 1940 to \$125.1 billion in 1959, an average gain of 7.3 per cent per year compounded for the 19-year period, but only a 3.2 per

The farm side of the economy may not be the hottest area of the American economy right now—in fact, it's anything but that. But debt-wise, farmers aren't badly off at all; and during a time like the present when farmers aren't sharing proportionately in the general prosperity, it is a reassuring fact. Farm problems will get an airing these next two months such as we haven't seen for a long time. Meanwhile, as the St. Louis Federal Reserve Bank Review shows, mortgage debt-wise, farmers are in a favorable position to weather a drop in land values. Mortgage debts are about 9.6 per cent of farm real estate values and that's only a third of what they were in 1933.

cent increase occurred from March 1959 to March 1960.† The persistency of farm real estate value gains during the 19 years of rapidly increasing prices made almost all farm land purchases during the period

†A small portion of this increase is attributable to an increase of 97 million acres in farms, a net investment in buildings and land and water improvements. Such net investments probably account for about 1 per cent per year of the increase in farm real estate values. The increase in acreage has added about \$4.5 billion (1947-49 dollars) to land values since 1940, net investment in buildings an additional \$4 billion, and several hundred million dollars annually has been added through net investments in land and water improvements.

Farm Mortgage Debt as a Per Cent of Farm Real Estate Value.



profitable to the new owners. Values declined from levels of the previous year in only two of the 19 years and the decline was only about 2 per cent in each instance.

This long period of rising farm land prices made profitable the ownership of farm land after land prices had been bid up beyond levels commensurate with returns to land from farming. One possible factor in this paradox is that some farmers, despite the high price of the purchased acreage, have found it profitable to add land to their current holdings because it has made their operations more efficient. Such bidding up of land values has, in four of the last five years, pushed prices to levels where returns on the market value of land from farming have been below the interest rate on farm mortgages. Furthermore, since 1956 such returns have been below those on either corporate Aaa bonds or common stocks with the exception of 1958. Nevertheless, with the additional gains from rising real estate values coupled with the lower tax rate on capital appreciation, investments in farm land have been profitable during the years of relatively low returns on farming. However, this situation could quickly change with a leveling off or decline

*Corn Belt includes Ohio, Indiana, Illinois, Iowa, and Missouri; Lake States—Michigan, Wisconsin, and Minnesota; Northern Plains—North Dakota, South Dakota, Nebraska, and Kansas.

in farm land values. Instead of an average gain of about 9 per cent per year from farm real estate ownership as in the past five years, without the increment in land value the gains to ownership would probably have averaged only about 4 per cent. Furthermore, overall returns to land from farming operations were probably not over 3 per cent of market value in 1959 and are expected to be even smaller this year. With operating returns to land at such low levels almost any decline in land values would wipe out all gains to land owners. On the other hand, many farmers have such large gains in real estate values that they could take a substantial decline and still have a profit on the original purchase price.

One important aspect of the relatively wide disparity in land values and income is the reduced debt paying capacity of farmers. Maximum debts that can be repaid out of returns from farming operations on most types of commercial family-operated farms in the nation have already

declined below two-thirds of the current market value of the farm, assuming a 20-year loan at 6 per cent interest. For sample farms of some types, specifically dairy farms in Eastern and Western Wisconsin, cotton farms in the Southern Piedmont and Black Prairie Texas, small cotton farms in the Mississippi Delta and peanut and cotton farms in the Southern Coastal Plains, debt paying capacity has already approached zero assuming a nominal allowance for family living. Furthermore, a loan representing 50 per cent of the 1959 market value of land would be difficult to carry on either cash-grain or hog-beef raising commercial family-operated farms in the Corn Belt in the absence of other sources of income.

Our farm mortgage debt is in a favorable balance

In recent years income to farm operators from nonfarm sources has become more important, accounting for almost one-third the total net income to farm operators in 1959

compared to the 1947-49 average of less than one-fourth. Such income may be important in repaying debts. However, it will probably not be an important factor in bidding up or retaining farm land values at levels beyond the debt repayment capacity of such land with more profitable alternative investment opportunities.

Mortgage debtwise, farmers are in much better condition to weather a downturn in real estate values than in 1920 when foreclosures became so prevalent. Although farm mortgage debt has been rising rapidly, more than doubling during the 1950's, so have real estate values with the result that debt-to-value ratios have risen relatively slowly. In early 1960 farm mortgage debts were equivalent to 9.6 per cent of the value of farm real estate, up from a low point of 6.9 per cent in 1949. Nevertheless, debt-to-value ratios are still below levels throughout the period between World War I and World War II and are only about one-third the peak reached in 1933 (see chart page 38).



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The School at Stanford

Another year in MBA education has been concluded—and the accumulated years and efforts which have gone into creating a better qualified coming generation of mortgage bankers now represent some rather impressive figures. This year at Stanford

for Course I there were 71 students from 57 companies in 38 cities in 13 states and Canada. For Course II there were 64 students from 55 companies in 31 cities in 10 states and Canada.

Add these to those who attended

Northwestern's Courses, and you come up with 208 students attending the opening session of the School of Mortgage Banking, 157 who were back this year for Course II and 120 who took Course III this year and were graduated.

Above, the class of Course I at Stanford and, directly opposite, Course II. Below, MBA Vice President Robert Tharpe speaks to the School and, right, one who, this year, and through past years, has been active in the Stanford session of the School, Willis R. Bryant, second

from right, with some students from Courses I and II.

On the opposite page, below, some scenes from life at the School, dining, visiting and making the contacts which seem to be particularly enduring. Stanford is like Northwestern—the students come from all over.





During the 13 years the School of Mortgage Banking and its predecessor, the Seminar, have been operating, about 1400 students have attended and 521 have graduated. That's an impressive number viewed in any light; but certain other considerations

must also be taken into account. Only MBA member firms can send students—if the School was open to the entire industry it could and would be far larger. But it would also lose that certain, highly-regarded academic advantage which comes from classes of

the size we have now. The figures are impressive, too, considering that most students come from mortgage banking firms and, say some experts, there are only about a 1000 of them in the country. MBA Education has become a real force in mortgage banking.



Other MBAs

Walter Kautz Named Cincinnati MBA Head San Diego MBA Will Sponsor MBA School



New officers of the Cincinnati MBA: front row, left to right, John Fletcher, chairman, Membership Committee; Stanley F. Glaser, secretary-treasurer, Walldon, Inc., chairman, Program Committee; Walter C. Kautz, mortgage loan secretary, The Ohio National Life Insurance Company, new president; and James L. Stevenson, branch manager, Panohio Mortgages, Inc., Columbus, treasurer.

Rear, Albert W. Mueller, assistant vice president, the Fifth Third Union Trust Company, secretary; W. Lee Koetzle, chairman, Public Relations Committee; Landon L. Wallingford, president, Walldon, Inc., board of governors; John H. Rutledge, vice president, Walldon, Inc., secretary; and William F. O'Rourke, Robert A. Cline, Inc., board of governors.

Middleton Heads Mortgage Servicers Group



Election in Jacksonville: This time it's new officers for Jacksonville's special organization devoted to servicing only, the Mortgage Servicers of Jacksonville. Dan W. Middleton, Jr., vice president, Kirbo, Mills & McAlpin, Inc., was elected president to succeed Paul A. Halter of Knight, Orr & Company, Inc.; Donald E. Brewer, secretary, Commander Corporation, was elected vice president and Juanita

Sweet of Bisbee-Baldwin Corporation, was re-elected secretary and treasurer. The executive board is the officers and Mr. Halter, Wilbur Williams and J. W. Rowell of Tucker Bros., Inc.

The Jacksonville effort, like those in Chicago and Texas devoted exclusively to servicing, reflects the accelerating importance of this side of the mortgage industry.

Malin Burnham, president of John Burnham Company, has been elected president of the San Diego MBA succeeding Keith Lister. Robert Cobb, vice president and manager of T. J. Bettes Company in San Diego, was elected vice president.

The San Diego MBA will again sponsor its Mortgage Bankers School for the third consecutive year. It's designed for employees new to the industry, as well as for others who would like the advantage of refresher courses. The course consists of twelve one-hour classes held one day a week scheduled to begin September 7.



Left, Mr. Burnham gets the gavel from Mr. Lister, right. Center, Mr. Cobb.

It will include films and discussions on FHA and VA procedures, title policies, servicing, property transfers, conventional loans, foreclosures, plus other related subjects. Students will be acquainted with terms and techniques.

► **SPEAKING IN DALLAS:** MBA Vice President Robert Tharpe said housing is receiving the share of financing it is entitled to, and the government should not step in and try to artificially stimulate it.

"You can't use legislation to force money into one segment of the economy, such as housing, and ignore other segments.

"Even though some political forces advocate setting a minimum annual housing goal of up to two million homes a year, it is impossible to keep a constant minimum rate of homebuilding without injuring some parts of the economy.

"Housing must adhere to the same principles as any other product, and this can only be governed by the law of supply and demand.

"Homebuilding has always gone in cycles."

California MBA Directors Meet in Fresh Air



Local board of directors meeting, California style: Directors of the Northern California MBA get together for a meeting, as they do regularly the first Thursday of each month in

San Francisco, but in line with California customs, these meetings can have a certain informality. Seated, left to right, Ira S. Wilbur, secretary, and loan supervisor, Pacific Mutual

Life Insurance Co.; Eugene S. Cox, manager, mortgage section, Pacific Mutual Life Insurance Co.; Willis R. Bryant, Bryant-Johnson Mortgage Co.; Albert E. Maggio, vice president, and vice president of Marble Mortgage Co.; Max L. Bates, vice president, T. J. Bettes Company of California; A. G. Cummings, vice president, E. S. Merriman & Sons; and Henry F. Trione, president, and president of Sonoma Mortgage Corporation. Standing, Charles McCarthy, vice president, Bank of America; Max E. Weyer, vice president, The Mechanics Bank; Earle V. Taylor, vice president, Crocker-Anglo National Bank and Kenneth J. Warren, treasurer and general partner, Mason-McDuffie Investment Co.

Arkansas MBA Meets with Deming as Speaker



R. O. Deming, Jr., vice chairman of the Charles F. Curry and Company, Kansas City, was the principal

speaker at a recent meeting of the Arkansas MBA. At a conference before the meeting were, left to right,

seated, W. E. Terry, president, William E. Terry & Co. Inc., program chairman; A. S. Rosen, manager, loan department, Block Mortgage Co., Inc., and president of the Arkansas MBA; Mr. Deming, Jr.; Gus Mooney, secretary-treasurer of the Association; and standing, Rudy Del Donno, vice president, Charles F. Curry and Company, and chairman, Membership Committee.

► **FHA BUYERS:** Said FHA Commissioner Julian Zimmerman: "We are tapping a new source of money with this plan for sales of FHA loans to individuals and it will make more funds available for FHA-insured housing."

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PRIOR to the opening of MBA's Chicago Convention, the Association is holding another meeting, probably one of the most important it has held and certainly the first one to which MBA members themselves are not being invited. To clear up any confusion immediately, the meeting is a Mortgage Seminar for Trusteed Funds on September 16 at Hotel Commodore in New York. To it are being invited the officers of every kind of pension trust. By confining it to only these officers for whom it is planned, we hope to achieve a compact, smoothly functioning meeting with every prospect of some notable achievements for the industry.

The purpose and objective of the meeting is to show these officers the servicing side of investing in mortgages, how simple it has become and how they need no longer avoid the mortgage investment field because of what has seemed to them in the past an almost insurmountable barrier.

During the day these officers will hear five general areas of discussion:

"Simplicity Characterizes Mortgage Acquisition and Portfolio Development" with the speaker, Ross Fox, vice president, T. J. Bettes Company, Houston;

"The Contractual Relationship Between the Mortgage Banker and the Fund's Trustee," with the speaker, W. W. Dwire, vice president, Citizens Mortgage Corporation, Detroit;

"Simplified Records and Controls," with the speaker, A. A. Johnson, vice president and manager of Servicing, Colonial Mortgage Service Company, Upper Darby, Pennsylvania;

"Safety in Mortgage Investment Is Assured," with the speaker, Roger W. Hatch, vice president and treasurer, Walker & Dunlop, Inc., Washington, D. C.; and

"Acquisition and Holding of Mortgages From an Investor's Viewpoint," with the speakers, James E. Gorman, assistant treasurer, The Chase Man-

hattan Bank, New York and Joseph L. Engleman, director of mortgage servicing, Mutual Life Insurance Company of New York.

At a noon luncheon MBA President B. B. Bass will review the discussion of the morning session and establish the basis for what is to come in the second session.

Thomas E. McDonald, vice president, T. J. Bettes Company, Houston, is chairman of the Seminar Committee and will moderate the discussion.

As President Bass pointed out last month, the interest of pension fund officers in the mortgage market has begun to "snow ball" and while the amount of loans the trusts are buying at the present time is still a relatively small part of total mortgages gen-

erated, a major breakthrough seems to be in the making. More and more funds are turning to mortgage loans and those which had previously started to buy are purchasing in greater volume. The Seminar is an attempt to clarify for pension trust officers all the points which may not be entirely clear in their present investment thinking regarding mortgages.

As a part of the arrangements for the Seminar, President Bass inaugurated a special manual which has been prepared by the Seminar Committee. The manual is aimed at supplying an aid to the discussion at the Seminar, but actually it is more a guide and brief textbook for the general subjects to be reviewed at the Seminar.

We're inviting them to our Mortgage Seminar for Trusteed Funds in New York on September 16 to demonstrate principally how the servicing aspect for investing in mortgages need concern them no longer.

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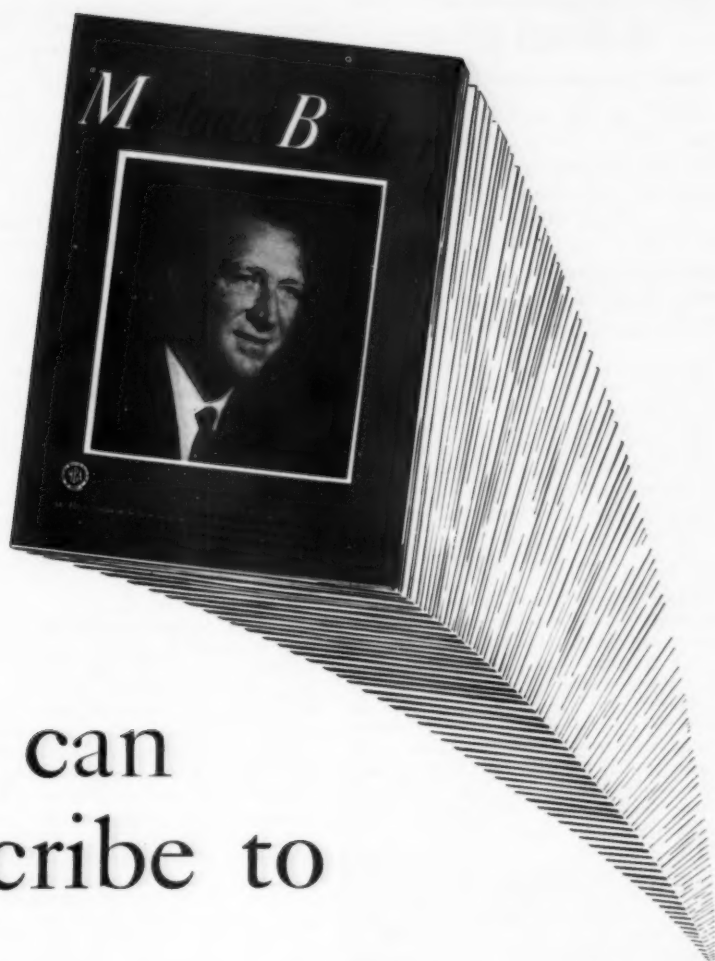
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Subscriptions to The Mortgage Banker have

never been solicited but the magazine is now available for general subscription. If you would like to enter additional subscriptions for members of your organization, or for anyone you believe might appreciate receiving it regularly, you can now do so at the rates indicated. Those receiving gift subscriptions will be mailed a card by The Mortgage Banker noting the firm donating the subscription. Write Circulation Department, The Mortgage Banker, 111 West Washington Street, Chicago 2, Illinois.

AS OTHERS SEE IT

Last June we published some observations of Perry Prentice about what this country needs is more quality houses and who's responsible for us not getting them. Roy Wenzlick, the noted real estate analyst, took issue with him in his service; and with permission, we're passing along this dissenting view. Wenzlick said:

AMONG professional appraisers the most severe condemnation of another appraiser is to call him an "advocate appraiser." By this is meant that he has ceased to be an impartial observer and is now espousing a cause, which almost automatically results in a higher or a lower valuation than would otherwise be determined.

In the June 1960 *Mortgage Banker*, the official publication of the Mortgage Bankers Association of America, Perry I. Prentice, editor and publisher of *House and Home*, has an article entitled, "Why Can't We Build Better Housing Than We Are Now?" In this article he blames the appraiser and the mortgage lender for much of the lack of quality in today's houses. He says that the appraiser can no longer hide from his responsibility behind the obsolete shibboleth that the market makes the price, and the appraiser merely evaluates it. He quotes Arthur Watkins, "The outmoded view of the appraisers, whose importance in homebuilding is often overlooked, is a widespread reason for mediocre design." He asks what appraisers are doing to encourage air conditioning, adequate wiring and piping, adequate room size, sufficient storage space, and a second bath. What is the appraiser doing to debunk high land prices? He suggests that what a home will sell for 20 years from now is more important than what it will sell for today.

House and Home and the *Architectural Forum*, both published by Time, Inc., have made a splendid contribution to the building industry and, in my opinion, occupy the same dominant position in the building field that other Time publications do in the various fields that they cover. To most of the opinions which Mr. Prentice expresses in this article, however, I am in direct opposition. In my opinion, it is not the appraiser's duty to sell the public on good construction, nor on some particular conventional or functional design. He should not be concerned with whether or not a particular family feels the need for a second or third bathroom or for better wiring or for more storage space. His responsibility lies in looking at a specific property with all of its good points and its faults, and in estimating what a prospective buyer will pay for it. His guide in arriving at his opinion is not what it cost to build, although he does figure re-

placement cost. He is not concerned with whether it is air conditioned or not, except as he has found that air conditioning, or its lack, affects the price the average buyer will pay. His principal guide in arriving at a dollar valuation is based on what buyers have been willing to pay for other properties which have sold recently, having similar good and bad points.

In 1946, according to our records, many buyers throughout the United States were buying residential properties probably 25 to 30 years old, and were paying for these properties an amount equivalent to the cost of producing them new, entirely disregarding the effects of accrued depreciation. This high price was due to the housing shortage that existed at the time, and was a scarcity premium which a scarce article in strong demand always carries. In the appraisals we made then we recognized and certified to the price that the property would bring in the market. Our appraisals, however, carried the statement that this price included a considerable scarcity premium which was due to the unusual market conditions.

Suppose, as appraisers, we had said then that the property which was selling for \$20,000 was "worth" only \$14,000. Our appraisal would clearly have been unfair to the seller, as we would have underestimated the fair market value by 30%. Peculiarly, our appraisal would also have been unfair to the buyer, as it would have prevented his buying a house which he needed, at the average market price at that time. Had the buyer waited to buy a piece of property at what Mr. Prentice would probably have considered a fair price, he would still be waiting, as selling prices did not come down, and are now approximately 60% higher than they were then, in spite of the additional 14 years of accrued depreciation.

I live in a suburb where no sale of a residential property has ever exceeded \$55,000. Many houses have been built in this area which cost much more than that, but on resale they have sunk to \$55,000 or less. Should an appraiser in this area assume that one of the better residences is worth replacement cost less physical deterioration? Since these houses are modern and well maintained, this would result in a price considerably higher than the previous limit. Would it be right? It certainly would not be what fair market value is generally assumed to be—the price arrived at by a willing seller and a willing buyer, both familiar with all of the pertinent facts.

I rather suspect that what Mr. Prentice has in mind is not an appraisal certificate but a certificate of excellence of construction, which is quite a different thing. Some of the best built buildings have been foreclosed because they were misplaced, or because it took too long to secure tenants, or because they were built at the wrong time, or just because.

What is the appraiser doing to debunk high land values? Again, I think this is

not the province of the appraiser. I would agree with Mr. Prentice that there is no real shortage of land but that much of it has been held off the market for higher prices. This is being solved in many metropolitan areas at the present time by appraisers following exactly the opposite course from the one he would suggest. Appraisers are accepting the values at which land has been selling, and as a result local reassessment programs are also accepting them. Farm lands in the metropolitan areas formerly assessed on the basis of rural acreage are now being assessed on the basis of potential development into subdivisions. I know of a case where land which was assessed on a value of \$150 per acre was bought by an industrial plant for \$3,500 per acre, and a portion of it which the plant did not need was resold for \$9,000 an acre. A great deal of land which was on the assessment rolls in our own county at \$450 an acre or less, is, in some cases, being raised to \$4,500 or more. When the assessor used his judgment, as Mr. Prentice thinks an appraiser should do in arriving at values, rather than actual sales in the market, sales price has been too high because of the restricted supply. When the assessor applies actual selling prices to similar land, the supply will increase faster than the demand, and prices will drop. The reassessment programs going on at the present time throughout the United States should do a great deal to lower unreasonable land prices.

It is easy to be impatient with progress. Most persons who believe in a Welfare State, if pinned down, would I believe say that it takes too long to accomplish results if we depend solely on the reactions of individuals in the market place. Government must step in and speed up the process.

The fact that, in a free market economy, in the past we have developed the highest standards of living the world has ever known, does not seem to impress those impatient with our rate of progress. The fact that many people prefer to live in squalor and ride in splendor is considered deplorable, as are many other decisions of consumers in a free market.

That many prospective home buyers are not willing or are unable to pay for quality construction is certainly true. Their judgment may be bad, their taste may be terrible, but it is their judgment and their taste, and in a free economy that is the final answer. Either the individual must be free to buy what he thinks will give him the greatest satisfaction or some dictator, benevolent or otherwise, must take on the job of selecting for him the things he should buy. I am certain that if some of my Welfare State friends were controlling consumption, they would reduce greatly the purchases of chewing gum and chewing tobacco. I doubt very seriously whether they would reduce the purchases of cigarettes, as most of them smoke, and we consider nonessential only the things which do not appeal to us personally.

(Continued on next page)

People : Places : Events



President D. M. Morgan of Northern Life Insurance Company, Seattle, announced the election of **S. E. Snyder** as vice president. Mr. Snyder has been associated with the investment department for the past 34 years. He was made supervisor of mortgage loans in December, 1943, and assistant vice president in January, 1948. He has had extensive experience in mortgage lending in the Pacific Coast states and in matters related to investment finance.

He is a past president of the Seattle MBA.

Mr. Snyder will succeed Vice President **Miles S. Johns** who has retired.

Lu Van Leer Brown, Jr., has been appointed assistant vice president in the trust department of Mellon National Bank and Trust Company, Pittsburgh.

Mr. Brown, a graduate of Stetson University Law School, St. Petersburg, Florida, began his banking career in 1936 in the mortgage and real

estate departments of The Union Trust Company.

Harry G. Baldwin, who has spent his entire career with Washington Mutual Savings Bank in Seattle, was named president of the institution he has served for 41 years. He succeeds to the position vacated by the death of **Stuart Frazier**.

Baldwin becomes the bank's sixth president in more than 70 years of its existence.

Baldwin, a native of Omaha, Neb., has lived in Seattle since 1914. He advances to the presidency after serving as vice president and head of the bank's mortgage loan department for a quarter century.

He joined the institution as a teller on May 17, 1919. In 1922 he was promoted to assistant secretary and to assistant vice president in 1926.

Carey Winston, Washington, D. C. has been elected director of the District Lawyers-Washington Title Insurance Company in the capital city.

Guy T. O. Hollyday, chairman of the executive committee, The Title Guarantee Company, Baltimore and **Ernest J. Loebbecke**, president, Title Insurance and Trust Company, Los Angeles, are among the MBA members named to serve on the Construction and Civic Development Committee of the United States Chamber of Commerce.

An MBA member firm, the Southern Trust & Mortgage Company, Dallas, made the first sale of an FHA loan to an individual investor, when the firm's president, **Aubrey M. Costa**, formerly MBA president, sold a mortgage to a Dallas wholesale dry goods merchant.

In past years there always seemed to be some confusion as to the who, what, when and how of the first FHA

loan ever made; but under the new FHA regulations permitting purchase of insured mortgages to individuals, the first sale was this Dallas transaction.

The mortgage was for \$10,500, payable over a 30-year period, on a 3-bedroom home purchased for \$10,850. Since the maximum interest rate of $5\frac{3}{4}$ per cent on such a mortgage is not competitive in today's money market, Mr. Costa pointed out the mortgage was sold at 96, or \$10,083.06, which means an actual gross yield of $6\frac{1}{4}$ per cent. The buyer will pay a fee of $\frac{1}{2}$ of one per cent to Southern Trust for servicing, leaving him a net yield of $5\frac{3}{4}$ per cent.

Mr. Costa said the sale of this first FHA-insured mortgage to an individual marks the opening of this new source of investment capital in the home loan field.



Dallas District FHA Director **Ellis Charles**, left, and Mr. Costa, right, look on as **E. A. Abrams** signs check to purchase the first FHA loan ever sold to an individual investor.

"It should further ease the supply of housing credit and stimulate home construction," he added. "Many new sources for mortgage money should become available. Now if a person wants to invest in FHA insured mortgages rather than stocks or bonds, he may do so—it's as simple as that."

William H. Harrison has been elected a vice president of First National Bank in St. Louis and will have

AS OTHERS SEE IT

(Continued from page 46)

I will agree with Mr. Prentice that a selling job should be done on good construction and on the advantages of owning a well-designed and well-built home. I am not at all sure, however, that my ideas of a well-designed home and his would be the same; in fact, I am rather certain that they would not be. The greatest disagreement between us, however, seems to be that I object to the appraiser as a salesman or advocate.

A competent appraiser is not a promoter but has a judicial type of mind. He is not concerned with trying to persuade, but is concerned solely with the attempt to measure the market and to evaluate the particular property in question. If I expected to buy a piece of property and employed an appraiser to tell me its fair market value, I would not expect him to try to sell me the type house he thought I should have. That I believe is for me to decide. If my taste is poor, at least it is the taste I am going to have to live with, and I would probably be very unhappy in an aesthetic building that was beyond my capabilities of appreciating.

general administrative duties, including supervision of the mortgage loan and real estate departments. He has been a realtor in the St. Louis area for more than 25 years, heading his own commercial and industrial real estate brokerage and management firm. His real estate business will be taken over by Clarence M. Turley.

The Commercial Trust Company, Atlanta mortgage banking institution, announced that **Donald K. Vanneman**, president for the past four years, was elected chairman of the board, and **Wilbur M. McArthur** was elected president and trustee.

Mr. Vanneman succeeds **Frank G. Etheridge**, who has served as board chairman since 1957. **Elwyn V. Hopkins**, formerly executive vice president, was elected senior vice president and trust officer.



D. K. Vanneman



W. M. McArthur

New trustees are: **William G. Grant**, Atlanta attorney; **William P. Bright**, Chicago accountant; and **Ed-**

ward S. Backnick, Jr., vice president and mortgage officer of Lincoln Savings Bank, of Brooklyn, New York. Other trustees are **Walter V. Gearhart** and **Cecil H. Ramsey**.

The Commercial Trust Company is one of the few state supervised mortgage banking institutions in the area, presently servicing over 6,600 mortgage accounts totaling in excess of \$58,000,000. Besides its conventional mortgage banking activities, the company has, during the past three years, pioneered a system for the financing of shell home mortgages throughout the Southeast. Originations of this type mortgage have exceeded \$5 million.

Frank G. Wilson, Jr. has been elected president of Property Securities Corporation, **George W. Warnecke**, chairman, announced. Mr. Wilson, a former vice president of Colonial Mortgage Service Company, Philadelphia, is a veteran of more than 30 years in mortgage banking and finance. He is the author of "Why Mortgages for Pension and Retirement Trusts."

James C. Bolton, chairman of the Rapides Bank and Trust Company, Alexandria, La., was appointed to the Louisiana State Board of Public Welfare by Gov. **James H. Davis** and was subsequently elected Chairman by the members of the Board. He was first

appointed to the Board by former Gov. **Robert F. Kennon**.

Obituary

William Laird Dunlop III, 51, executive vice-president of Walker & Dunlop, Inc., mortgage banking firm of Washington, D. C., died at his summer home in Cape May, N. J. He was the partner of **Oliver M. Walker**, of MBA's board of governors.

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